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FOREIGN ASSISTANCE AND RELATED PROGRAMS APPROPRIATIONS FOR FISCAL YEAR 1984

HEARINGS

BEFORE A

SUBCOMMITTEE OF THE

COMMITTEE ON APPROPRIATIONS

UNITED STATES SENATE

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Export-Import Bank of the United States
Inter-American Foundation
Nondepartmental Witnesses
Peace Corps
United Nations

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FOREIGN ASSISTANCE AND RELATED PROGRAMS APPROPRIATIONS FOR FISCAL YEAR 1984

MONDAY, FEBRUARY 28, 1983

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, D.C.

The subcommittee met at 10:25 a.m. in room SD-192, Dirksen Senate Office Building, Hon. Robert W. Kasten, Jr. (chairman), presiding.

Present: Senators Kasten, Hatfield, Specter, Inouye, Johnston, and Leahy.

DEPARTMENT OF STATE

SECRETARY OF STATE

STATEMENT OF HON. GEORGE P. SHULTZ, SECRETARY OF STATE

ACCOMPANIED BY:

PETER McPHERSON, ADMINISTRATOR, AID
WILLIAM SCHNEIDER, UNDER SECRETARY FOR SECURITY ASSISTANCE, SCIENCE AND TECHNOLOGY

BIPARTISAN COOPERATION FROM SUBCOMMITTEE

Senator KASTEN. The subcommittee will come to order. This morning we will begin our regular budgetary hearings on the administration's foreign assistance requests for fiscal year 1984 and to hear testimony on the fiscal year 1983 supplemental request.

Hon. George P. Shultz, Secretary of State is our witness this morning, and he will provide us with an overview of the foreign assistance program and the policies driving that program.

Mr. Secretary, this is your first appearance before our subcommittee, and we are pleased to have you with us. We look forward to a fruitful year, to a productive year as we work together to try to solve the many problems that are associated with foreign policy.

This subcommittee has a long history of bipartisanship and cooperation with the executive branch, and Senator Inouye, who will join us momentarily, and I will continue that approach.

Mr. Secretary, I know that your written statement goes on at length justifying the IMF quota increase. I do not plan to get into that question in great detail personally. I want to assure members of the subcommittee that the whole question of the IMF will be explored in a separate set of hearings that we intend to have in this subcommittee, once the ideas are further developed in the authorizing committees. But we certainly appreciate your views being laid on the record in the written statement, and I hope that we can put off a lot of discussion on that issue until a further date.

I look forward to your testimony here today. Senator Inouye may have some opening comments, and we will ask him to make those comments when he arrives. I know that your time is short, so please proceed, and I am pleased to have you with us here today.

SECURITY AND ECONOMIC DEVELOPMENT PROGRAM

Secretary SHULTZ. Thank you, Mr. Chairman.

I appreciate your opening comments and your reference to the bipartisan approach of this committee. I am familiar with the way you have gone about things, and I appreciate it very much. So I especially welcome this chance to start our dialog on the President's fiscal 1984 security and economic development program.

As you noted, you have my lengthier statement, and I am not going to read it. I would like to make some comments emphasizing the highlights and ask that the full statement be placed in the record.

GOALS OF FOREIGN ASSISTANCE

The premise behind this program is that the United States cannot realize its fundamental goals with peace, prosperity and freedom unless there is economic growth and political stability in the developing countries. This program is an essential instrument of our foreign policy. It is directly linked to the security and well-being of every citizen in the United States.

We saw clearly last year with war in Lebanon and the acceleration of the debt problem in developing countries how events in the Third World can affect our country's economic prospects and aspirations for peace.

But let me explain these relationships more systematically.

IMPORTANCE OF DEVELOPING COUNTRIES

Over the past 15 years the developing countries have become increasingly important to our economy and those of our allies.

In 1980 developing countries purchased about 40 percent of U.S. exports, more than bought by Western Europe, Eastern Europe, the Soviet Union, and China combined. The developing countries have accounted for about half the growth in our exports since 1975; at this juncture 1 out of every 20 workers in our manufacturing plants and 1 out of every 5 acres of our farmland produce for Third World markets. And I might say that if you were talking agricultural exports as a whole, it would be 2 out of 5 acres.

The current worldwide recession has painfully highlighted these relationships. In the past several years growth rates in developing countries have dropped from over 5 percent per year to around 2 percent. Partly as a result, our exports to these countries, which were increasing at more than 30 percent a year in the late 1970's, have tapered off.

If you turn to the chart at the beginning of my longer statement, you will see this rise and decline of exports. To give specific examples, in the first 8 months of 1982 U.S. exports to Mexico dropped 26 percent, to Chile 59 percent, and to Thailand 25 percent. According to one estimate, every $1 billion decline in U.S. exports has erased 60,000 to 70,000 U.S. jobs.

On the other side of the trade ledger, the developing countries supply about 40 to 45 percent of our imports. The Third World supplies more than half of the bauxite, tin, and cobalt used by U.S. industry. For some 11 other strategic metals and minerals, the developing countries supply more than half of all our imports. For some natural products, such as rubber, coffee, cocoa, and hard fibers, the Third World supplies everything we use.

Again, there are charts on pages 4, 5, and 6 of my statement which show our economic relationships with the developing countries.

ECONOMIC PROBLEMS OF DEVELOPING COUNTRIES

Global recession in the past 2 years has brought an abrupt pause in the growth of developing countries' earnings. World trade has stagnated and the prices of nonoil commodities fell 28 percent between 1980 and 1982. This has increased debt service ratios and eroded terms of trade.

The fundamental problem faced by high debt developing countries is one of reviving their exports, an income earning problem rather than a debt problem. But immediately they confront a financing problem as banks have cut back new lending from $47 billion in 1981 to around $20 billion to $25 billion in 1982.

Another severe contraction in lending this year would imperil the recovery of the debtor countries. Moreover, reduced lending would retard our own recovery by contracting imports by developing countries.

In negotiations just concluded, members of the IMF agreed upon a quota increase to $99 billion. The 10 industrial countries that make up the G-10 have also agreed to expand and widen access to funds reserved under the General Agreements to Borrow [GAB].

The point of these measures is not to substitute IMF lending for private bank lending. It is to enable the IMF to support economic recovery policies in debt-plagued developing countries which will permit banks to resume lending.

Indeed, Treasury Department studies show that over the past 5 years IMF stabilization programs have been followed by new bank lending which is on the average four times greater than the funding provided by the IMF.

The fundamental mechanism for alleviating LDC debt problems is economic expansion in both industrial countries and the Third World. It has been estimated that if the GNP of industrial countries of the OECD were to grow by 4 percent in 1983 instead of the projected 1.8 percent, the nonoil developing countries would earn an additional $15 billion from their exports.

The measures we are presenting to the Congress this year, the IMF quota increases and our multilateral and bilateral development programs, are investments in economic growth which directly serve U.S. interests. Sustained U.S. economic growth depends on a healthy and growing world economy.

GOAL OF PEACE AND SECURITY

Beyond the demands of economics, the Third World is fundamental to our aspirations for security and peace. Since 1950, most of the major threats of international stability and the chief opportunities for expansion of the Soviet Union's political reach have come in the Third World. The point is clear. The fault line of global instability runs strongly across the continents of the Third World.

The Soviet Union and its allies are able to feed on this political instability. Some of the most significant uses by the Soviets of military power since World War II have been in the developing world. The Soviet deployment of a deepwater navy, an airlift capacity and mobile ground forces have given them ability to intervene when they perceive targets of opportunity. We cannot ignore this reality.

Strategically some of the least secure Third World countries are sources of critical raw materials or lie astride sea lanes which carry our military forces and world commerce. The premier example is the Persian Gulf. About 32 percent of the free world's oil supplies originates there. Even with the recent declines in oil prices, we have an ongoing national interest in assisting countries in this region, and thereby helping to sustain access to those supplies.

As a parenthetical remark, I want to mention my belief that further oil price declines, if they occur, will spur the free world's economic recovery. For some countries, such as Venezuela and Mexico, cheaper oil admittedly means tougher times. But it will be good for most of us. I have seen one estimate that a decline in oil prices to $20 per barrel would boost real growth rates in the industrial countries by up to 1½ percent. A less steep decline would have proportionally positive effects.

What would be harmful over the long term is if oil prices resume the gyrations we have experienced in the last decade. For this reason, the United States has an interest in helping oil importing developing countries, such as the Philippines and Thailand, improve their energy development programs and further disperse the ability to produce energy.

The job of containing the political influence and military reach of the Soviet Union also requires that we maintain military facilities and strengthen indigenous defense forces around the world. The United States cannot defend its interests by operating out of the United States and Europe alone. We need the cooperation of countries in the Third World, and we must be prepared to help these key countries achieve their aspirations for security and economic growth.

The least desirable method for preserving our strategic interests is by using U.S. forces. If we are able to reduce incidents in the future, we need a significant program exercised consistently over time to secure peace and economic well-being in the developing countries.

FISCAL YEAR 1984 SECURITY AND ECONOMIC COOPERATION PROGRAM

This is the purpose of the President's fiscal 1984 security and economic cooperation program. The program focuses on key strategic areas and economic problems which post short- and long-term threats to the United States.

Our total request is for $14.5 billion. Of this, $4.4 billion is for off-budget repayment guarantees of loans at interest rates which reflect the cost of money to the U.S. Treasury.

Slightly more than one-third of all proposed funds will go to the peace and security process in the Middle East, principally to support military and economic programs in Israel and Egypt. Added to this is our request for $251 million in supplemental fiscal 1983 funds for Lebanon. I do not need to dwell with this committee on how important our assistance funds are to the peace process in the Middle East.

FOCUS OF BILATERAL SECURITY AND ECONOMIC PROGRAM

There is a pie chart on page 17 of my longer testimony which shows where the rest of the bilateral security and economic program is focused. The bulk of the remainder goes for four key areas:

Funds to strengthen military capabilities and accelerate economic activity in Greece, Portugal, Spain, and Turkey on the southern flank of NATO.

Funds for overcoming economic problems in the Caribbean on our southern sea routes and for helping build democratic institutions and political stability in Central America.

Funds for nations near the critical oil supplies in the Persian Gulf. We propose significant economic and security assistance programs for Pakistan, Sudan, Morocco, Tunisia, Somalia, and Kenya.

In the key Pacific area, the focus is on strengthening Korea's defense and assisting the Philippines, Indonesia, and Thailand.

KEY REQUISITES FOR GROWTH

In all our programs in strategic regions, we aim our economic aid, both development assistance and economic support funds, at the key requisites for growth:

First, rational macroeconomic policies which provide an environment for growth by creating incentives and encouraging the private sector;

Second, developing capacities to use science and technology; and

Third, investing in agriculture, which is the engine of economic growth in developing countries, and supporting population and allied health programs. As you know, rampant population growth underlies the Third World's poverty and poses a major long-term threat both to political security and our planet's resource base.

Our fiscal 1984 program also includes funds for the multilateral development institutions, particularly for fulfilling our pledge to the International Development Association [IDA]. Our commitment to share IDA's worldwide program has been reaffirmed by the President at recent meetings of world leaders in Cancun and Versailles.

As mentioned earlier, the priority item on the world's agenda today is restarting noninflationary growth. The United States is urging private U.S. banks to continue a prudent flow of capital to less developed countries. In this circumstance, it is not consistent and not credible for our Government to continue to delay funds for IDA, which is a major source of growth capital in low-income countries.

FISCAL YEAR 1983 SUPPLEMENTAL REQUEST

Let me conclude by harkening back to the fiscal 1983 program just passed. The most recent fiscal 1983 continuing resolution fell 9 percent, $1,250 million below our fiscal 1983 request. Three-quarters of the security assistance funds were earmarked, meaning that the shortfall fell heavily on our strategic interests in Southwest Asia, Central America, and Africa. No matter how we slice it, the amount received is inadequate to meet our security requirements abroad.

Hence, we are requesting a fiscal 1983 supplemental of $251 million in new funds for Lebanon and $981.5 million to make up shortfalls in the 1983 program.

Our objective in Lebanon is straightforward. We seek to restore Lebanese sovereignty and insure Israeli security. The threat to Israel does not come from the Lebanese people, but from foreign forces that are camped on Lebanese soil. It follows that a peaceful Lebanon, sovereign over all its territory, will make a major contribution to Israeli security.

For the balance of the fiscal 1983 program, the shortfalls left after deducting the earmarks are severe.

Jordan, a potentially critical player in the peace process, will have its military aid reduced by some 40 percent.

In Southwest Asia military loans for Pakistan would be cut below the level needed to pay for military equipment already on order. Military aid for Somalia and Kenya, strategically located countries in and around the Horn of Africa, would be cut by over 60 percent. Sudan, recently threatened by Libya and Tunisia, which was attacked by Libya in 1979, would see their military assistance severely cut.

In East Asia grant military aid and military sales guarantees to Korea and Thailand, with North Korean and Vietnamese troops on their respective borders, would be cut by a third.

These are just a few examples of the difficulties we face.

Mr. Chairman, every U.S. President since Harry Truman has endorsed our foreign assistance program as fundamental to U.S. interests, political, economic and security. Yet the American people are skeptical, and Congress has reduced the real resources it approves for this program over the past 15 years.

COMMISSION ON SECURITY AND ECONOMIC ASSISTANCE

In this circumstance, we announced last week the formation of a Commission on Security and Economic Assistance. It will be headed by former Deputy Secretary of Defense Frank Carlucci, and will have three distinguished cochairmen: Lane Kirkland, director, AFL–CIO; Laurence Silberman, vice president, Crocker National

Bank; and Clifton Wharton, chancellor, State University of the New York system and chairman of the Rockefeller Foundation.

The Commission will, I hope, include Members of Congress and will consult closely at all times with the Congress on ways to strengthen support for this vital program. I know the Commission will look forward to working with this committee.

The fundamental fact which the Commission and I hope this committee will keep in mind is that while this program is called foreign aid, its basic purpose is to serve our national interests. The U.S. security and economic assistance program promotes conditions abroad which are deeply in the interest of each person in this room, in this city, and across our country.

I hope you will give both the 1983 supplemental and the 1984 program your full support.

I will be happy to answer any questions you may have.

[The prepared statement of Hon. George P. Shultz follows:]

PREPARED STATEMENT OF HON. GEORGE P. SHULTZ
SECRETARY OF STATE

THE FY 1984 SECURITY AND ECONOMIC DEVELOPMENT PROGRAM

I am pleased to appear before you today to begin our dialogue on the President's FY 1984 Security and Economic Development Program.

Our security and economic assistance programs are essential instruments of our foreign policy and are directly linked to the national security and economic well-being of the United States. They must be seen in the context of our priority effort to reestablish the fact and the perception among our friends and allies that we are a reliable partner -- that we have the capacity and will to build international peace, foster economic growth, and sustain mutual security.

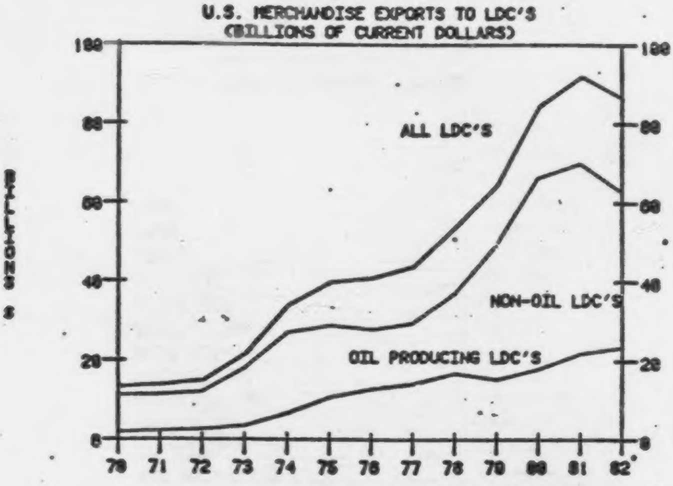
In recent years, the countries of the Third World have increasingly moved to the front of the stage where these issues of peace, prosperity, and security are played out.

Economically, the developing countries as a whole have been growing more rapidly than the U.S. and Europe (but not Japan) for the past 15 years. As they have grown, they have become increasingly important as customers and suppliers for ourselves and other industrial nations.

Since 1975, the developing countries have accounted for more than half the growth in U.S. exports. They purchased about 40 percent of U.S. exports in 1980 -- more than bought by Western Europe, Eastern Europe, the Soviet Union, and China combined. At this juncture, approximately one out of every twenty workers in our manufacturing plants and one out of every five acres of our farmland produce for Third World markets.

The current worldwide recession has vividly -- if painfully -- highlighted these relationships. In the past several years growth rates in the developing countries have dropped from over 5 percent per year to around 2 percent.

Partly as a result, our exports to these countries -- which were increasing at more than 30 percent a year in the late 1970's -- have tapered off. The chart below shows this rise and decline of exports. As specific examples, in the first eight months of 1982, U.S. exports to Mexico dropped 26 percent, to Chile 59 percent, and to Thailand 25 percent.

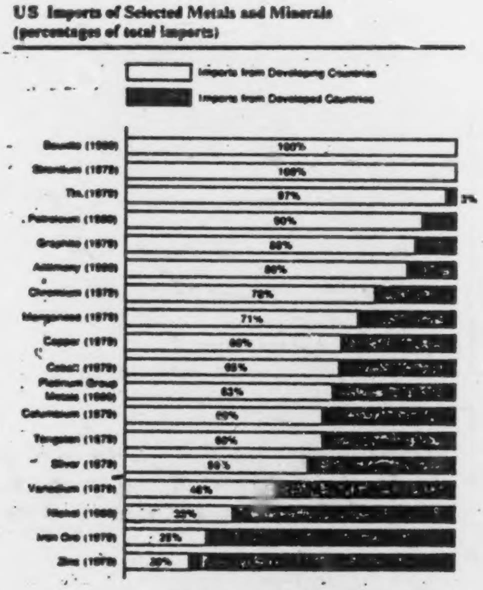

U.S. MERCHANDISE EXPORTS TO LDC'S
(BILLIONS OF CURRENT DOLLARS)

* ANNUAL RATE BASED ON 10 MONTHS
SOURCE: IMF

According to one estimate, every $1.0 billion decline in real net U.S. exports (1972 dollars) erases 60,000 to 70,000 U.S. jobs once multiplier effects are realized.

In your districts today, some of the workers in unemployment lines and some of the businesses and farms on the auction block are living, if unwanted, proof that the well-being of our citizens is linked to the well-being of citizens in the Third World.

On the other side of the trade ledger, the developing countries supply about 40-45 percent of the goods which we import for our factories and consumers. Although we are richer in minerals than most industrial countries, the Third World supplies more than half the bauxite, tin, and cobalt used by U.S. industry. As indicated in the chart below, for some 11 other strategic metals and minerals, the developing countries supply more than half our imports. For some natural products, such as rubber, coffee, cocoa, and hard fibers, the Third World supplies everything we use.

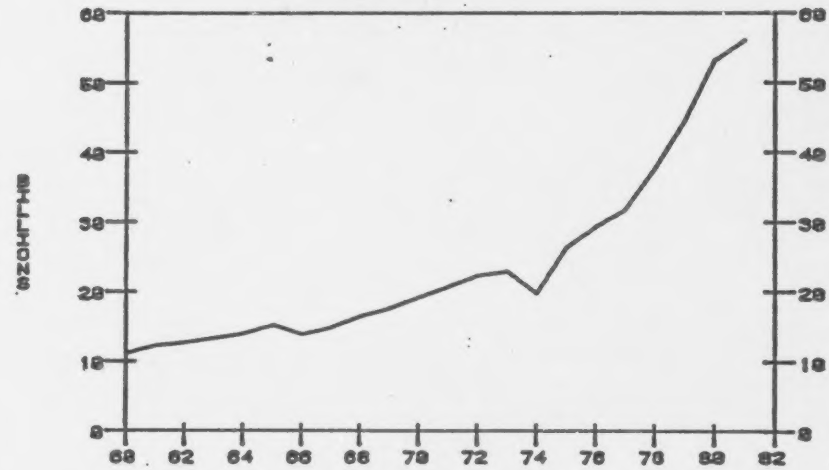


SOURCE: U.S. Trade with the Third World: The American Stake, John A. Mathieson

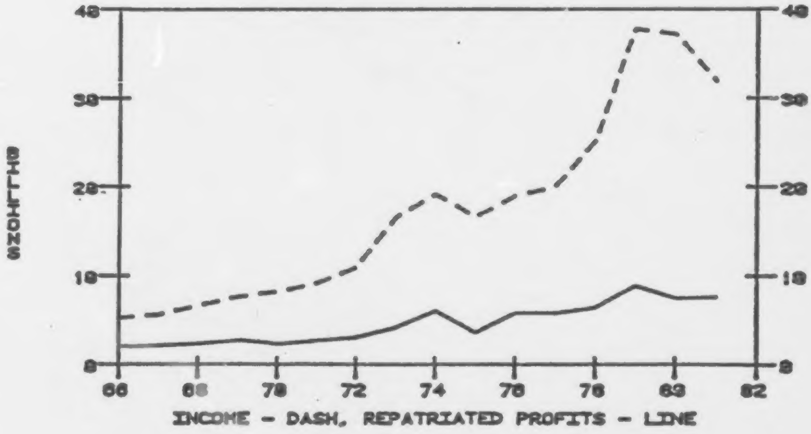
Since pictures can sometimes provide information more easily than words, I have included some further graphs to illustrate our trade and investment ties to the Third World.

US INVESTMENT IN LDCS

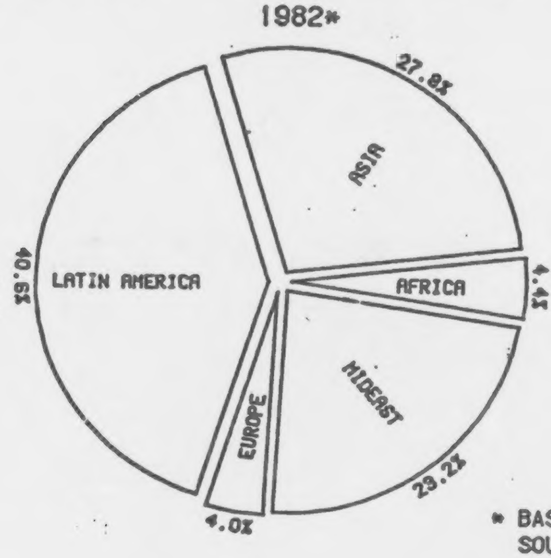
U.S. DIRECT INVESTMENT IN LDC'S
(BILLIONS OF CURRENT DOLLARS, YEAREND 1960-81)



INCOME AND REPATRIATED PROFITS FROM U.S. DIRECT
INVESTMENT IN LDC'S, 1966-81
(BILLIONS OF CURRENT DOLLARS)

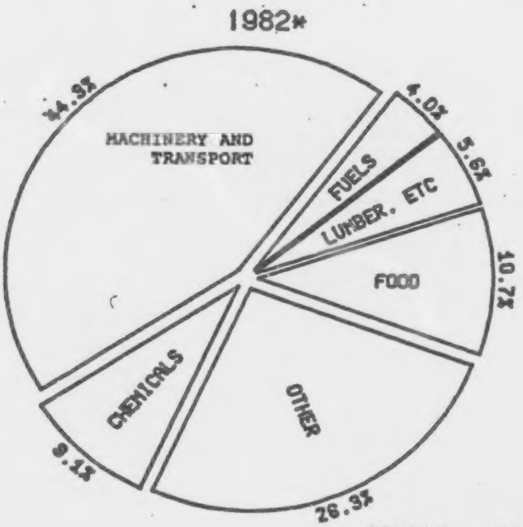


US MERCHANDISE EXPORTS TO LDCS BY REGION



* BASED ON 10 MONTH
SOURCE: IMF

US MERCHANDISE EXPORTS TO LDCS BY COMMODITY



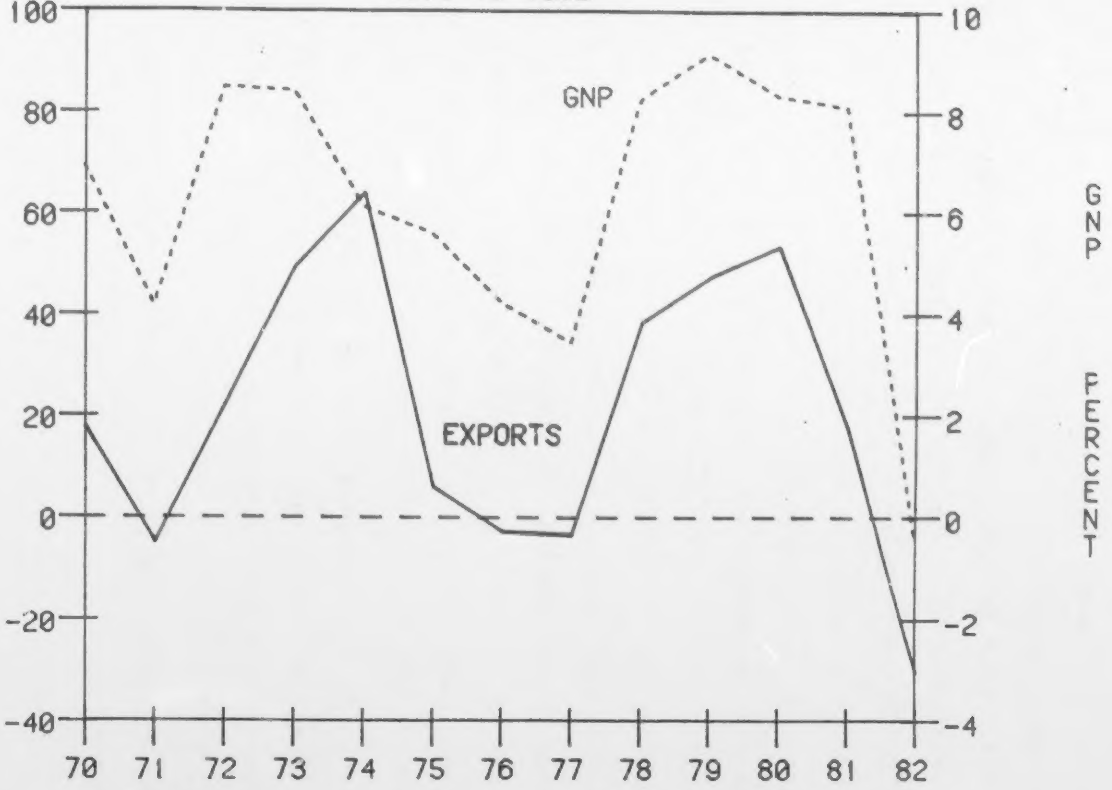
SOURCE: * BASED ON 10 MONTH
US DEPT OF COMMERCE

Global recession in the past two years has brought an abrupt pause in the growth of developing countries' earnings. World trade has stagnated and the prices of non-oil commodities have fallen 28 percent from 1980 to 1982. This has increased debt service ratios and eroded terms of trade. The fundamental problem faced by high-debt developing countries is one of reviving their exports -- an income earning problem, rather than a debt problem. But, immediately, they confront a financing problem as banks have cut back new lending from $47 billion in 1981 to around $20-$25 billion in 1982. This has imposed draconian cuts in imports.

Another severe contraction in lending this year would imperil the recovery of the debtor countries. Moreover, reduced lending, in the face of increased debt service costs, would retard our own recovery by contracting imports by developing countries. Indeed, a Morgan Guaranty Trust Company study estimates that if capital flows into developing countries are cut by $25 billion, OECD growth would drop at least half a percentage point. With OECD growth in 1983 expected to be only 1.8 percent, half of a percentage point would represent a significant cut in growth.

The Morgan Guaranty study is hypothetical. But import cuts are already a reality. I have cited the dramatic case of Mexico, whose imports from the U.S. dropped 60 percent from the first quarter of 1981 to the last quarter of 1982. The cut in Mexico's imports, if sustained, would represent a $10 billion loss in U.S. exports and the elimination of thousands of American jobs. The following chart shows the relation between economic growth in Mexico and U.S. exports. As you will note, as their economy contracts, so do our exports.

GROWTH OF REAL U.S. MERCHANDISE EXPORTS*
TO MEXICO AND MEXICO'S REAL GNP GROWTH
1970 TO 1982



* NOMINAL EXPORTS DIVIDED BY U.S. OVERALL IMPLICIT EXPORT PRICE DEFLATOR

The international economy is too vulnerable to this kind of contraction to permit a continued decline in lending to the Third World. Private banks have a collective interest in extending sufficient new money to permit the developing countries to service their debts. Western governments, including our own, have a similar stake in seeing that the developing countries have sufficient capital to pay for imports of goods and services that will enhance their productivity, and contribute to world economic expansion.

The IMF is a critical part of the adjustment process. The IMF helps affected countries develop sound policies of economic stabilization. Such stabilization policies in turn encourage new commercial lending.

A Treasury study of IMF programs shows that over the last 5 years IMF-supported stabilization programs have been followed by new bank lending that is on average four times greater than the financing provided by the IMF. The IMF's financing does not pay bank debt, but rather encourages increased bank lending.

In negotiations just concluded member countries of the IMF agreed upon a quota increase of 47 percent from $67 billion to $99 billion (at the current SDR/dollar rate). The proposed increase in the U.S quota is $5.8 billion, representing 18 percent of the total increase. Action by member countries to implement the quota increase this year is an inherent component of any program to renew world economic growth.

Another component of such a program is the expansion of the General Arrangements to Borrow (GAB). The GAB was initially established by ten industrialized nations as a back-up line of credit to be drawn upon solely by the ten contributing countries. However, late last month in Paris, the United States, together with the other nations of the Group of Ten, agreed to increase the GAB from $7 billion to $19 billion. Our share of this expansion is $2.6 billion. Unlike the traditional GAB, access to this expanded fund will not be limited to the G-10 alone, but will be accessible to any country whose liquidity problems threaten the financial system as a whole.

Our share of the IMF quota increase and the GAB expansion totals $8.4 billion. This is the amount we will be asking Congress to approve before the end of 1983.

The fundamental mechanism for alleviating LDC debt problems -- as I pointed out earlier -- is economic expansion in both the industrial countries and the Third World. It has been estimated that if the GNP of the industrial countries of the OECD were to grow by 4 percent in 1983 rather than the projected 1.8 percent, the non-oil developing countries would earn an additional $15 billion from their exports.

The measures we are presenting to the Congress this year -- the IMF quota increases and our multilateral and bilateral development programs -- are investments in economic growth which directly serve U.S. interests. Sustained U.S. economic growth depends on a healthy and growing world economy.

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Beyond the demands of economics, the Third World is fundamental to our aspirations for security and peace.

Since 1950, most of the major threats to international stability, and the chief opportunities for expansion of the Soviet Union's political reach, have come in the Third World: Korea in 1950, Dienbienphu in 1954, Suez in 1956, Cuba in 1962, and more recently Iran, Angola, Afghanistan, Kampuchea, El Salvador, and Ethiopia.

The point is clear. The fault line of global instability runs strongly across the continents of the Third World.

This instability is inimical to our security in many ways. Small incidents can flare into larger conflagrations and potentially into confrontations between the superpowers. Korea and Cuba teach this lesson well.

More subtly, the Soviet Union and its allies are able to feed on political instability uses by the Soviets of military power since World War II have been in the developing world. The Soviet deployment of a deepwater navy, an airlift capacity, and mobile ground forces have given them the ability to intervene quickly when they perceive targets of opportunity.

In addition, the Soviet Union supports 870,000 troops in North Korea -- 60 percent more than maintained by South Korea. It bankrolls the Vietnamese army which has positioned 180,000 troops directly on the border of Thailand. It supports 55,000 Cuban troops in Angola, Ethopia, and Mozambique. The Soviet Union is the largest purveyor of arms to the Third World. In 1981, they supplied about three times as many tanks, aircraft, and artillery pieces as did the U.S.

We can not ignore these realities as they challenge our national interests.

Strategically, some of the least secure Third World countries are sources of critical raw materials or lie astride sea lanes which carry our military forces and world commerce. The premier example is the Persian Gulf. About 32 percent of the free world's oil supplies originates there. Despite the recent decline in oil prices and the increased availability of non-OPEC oil, this region is vital to the economic and political security of Europe, Japan, and the United States. Clearly, it is in our national interest to assist countries in this region, and thereby help sustain access to those supplies.

As a parenthetical remark, I want to mention my belief that the recent decline in oil prices -- and the possibility of further declines -- will spur the free world's economic recovery. Of course, an oil price decline is not unambiguously good, for any sudden, unanticipated change in the world economy causes disruptions. An oil price decline may, for example, harm individual countries -- especially developing countries such as Mexico and Venezuela which export oil.

But assume for the sake of illustration (as distinct from prediction) a decline to, say, $20 a barrel (a 40 percent drop). It has been estimated that such a price decline would, in the aggregate, have the following catalytic impact over a two year period: real growth rates in industrial countries would increase to 1 to 1 1/2 percent; the 1983 oil import bill for industrial countries would drop by $90 billion, and that for LDC's by $9 billion; the OECD current account balance would swing from a deficit of $18 billion to a surplus of $17 billion; simultaneously, LDC exports would rise 3 percent, cutting their current account deficit by $18 billion. A less significant oil price decline would have similar positive effects, roughly proportional to the reduction from current prices.

What would be harmful over the long-term is if oil prices resume the yo-yo gyrations we've experienced in the last decade. For this reason, the United States has an interest in helping oil importing developing countries, such as the Philippines and Thailand, improve their energy development programs and further reduce worldwide dependence on OPEC.

The job of building our security also requires that we maintain military facilities and strengthen indigenous defense forces around the world. This includes U.S. bases in the Philippines, and in Turkey, the Azores, Morocco and other strategically placed countries.

The U.S. cannot defend its interests by operating out of the U.S. and Europe alone. We need the cooperation of countries in the Third World to grant transit, refueling, and base rights. Otherwise, while we may wish to build up a rapid deployment force, we will be unable to deploy it without Third World friends who will allow us to use their facilities. We must be prepared, in turn, to help these key countries achieve their aspirations for security and economic growth. This is not just a short-term proposition. The process of mutual cooperation weaves ties of interdependence and friendship which will redound to our benefit in years to come.

The least desirable method for preserving our strategic interests and ensuring stability in the Third World is by sending in U.S. forces. If we are to reduce such incidents in the future, we need a modest commitment of resources -- exercised consistently over time -- to secure peace and economic well-being in the developing countries.

This is the principal purpose of the President's FY 1984 Security and Development Cooperation Program. The program focuses on key strategic areas and economic problems which pose short- and long-term threats to the United States.

Our request is for $14.5 billion -- 4.6 percent more in current dollars than our request last year. Of this $4.4 billion is for off-budget repayment guarantees of loans at interest rates which reflect the cost of money to the U.S. Teasury.

As the figures below show, about 63 percent of our request is for security assistance: military aid and economic support funds (ESF) to assist in building the economic and military capabilities of countries and regions of strategic importance. Thirty-seven percent of the total program is for worldwide economic assistance through both bilateral and multilateral programs.

Reading across the table, if you add the ESF -- that is the funds used for economic growth in the key security countries -- to the worldwide economic assistance, then the program divides functionally as 53 percent of the funds used to spur economic growth, 43 percent for military aid, and 4 percent for refugee assistance and other uses.

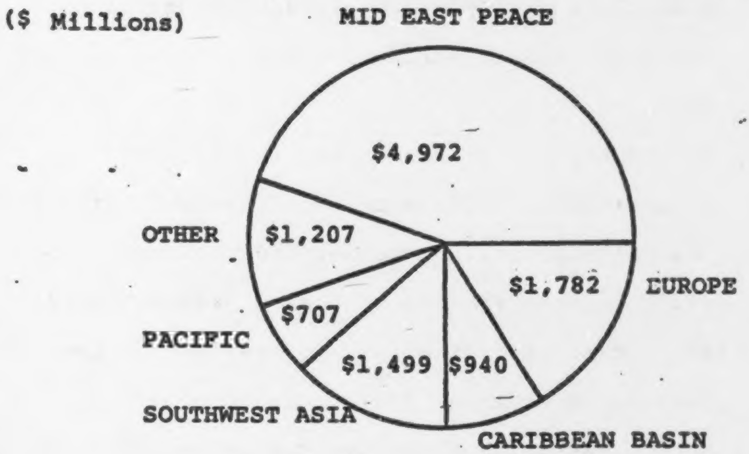
FUNDS ARE USED FOR	SECURITY ASSISTANCE PROGRAM	ECONOMIC ASSISTANCE PROGRAM	TOTAL
	($ Billions)		
Military Aid	$ 6.2 **		$ 6.2 (43%)
Economic Growth	$ 2.9	$ 4.8	$ 7.7 (53%)
Other*	$ 0.1	$ 0.5	$ 0.6 (4%)
Totals	$9.2 (63%)	$5.3 (37%)	$14.5 (100%)

* Other includes refugee assistance, Peace Corps, narcotics control, and smaller programs. Percentages are rounded off.

** Includes $4.4 billion in off-budget repayment guarantees of loans at rates which reflect the cost of money to the Treasury.

In recent years, we have integrated all our foreign assistance instruments -- development aid, PL 480, and security assistance -- around discrete objectives. Our FY 1984 program reflects this process.

REGIONAL ALLOCATION OF FOREIGN ASSISTANCE



The largest single use of the proposed funds is for the peace and security process in the Middle East. This supports principally military and economic programs in Israel and Egypt. Added to this is our request for $251 million in supplemental FY 1983 funds for Lebanon. I do not need to dwell with this committee on how important our assistance funds are to the peace process in the Middle East nor how inextricably U.S. political interests are bound to the search for peace in that region.

After the Middle East, the next large segment goes for four key areas:

-- Funds to strengthen military capabilities and accelerate economic activity in Greece, Portugal, Spain, and Turkey on the southern flank of NATO.

-- Funds for overcoming economic problems in the Caribbean on our Southern sea routes and helping build democratic institutions and political stability in Central America.

-- Funds for nations near the critical oil supplies in the Persian Gulf. We propose significant economic and military assistance programs for Pakistan, Sudan, Morocco, Tunisia, Somalia, and Kenya.

-- In the key Pacific area, the focus is on strengthening Korea's self-defense and assisting the Philippines, Indonesia, and Thailand.

The balance of the FY 1984 bilateral program deals with a host of critical situations in the rest of the world: problems in southern Africa caused by a combination of apartheid; the drive for independence in Namibia, and Soviet/Cuban adventurism; funds for the distressingly stagnant countries of sub-Saharan Africa;

and the over-populated, but slowly growing Indian sub-continent.

The President's democracy initiative is an important and related matter. He has put $65 million dollars in the USIA budget for programs to help build the infrastructure of democracy and to promulgate the American values of freedom and decency in the world. Democracy has proved to be the best guarantee of the whole range of other human rights. Even though we must continue to cooperate with non-democratic governments to achieve certain policy objectives, it is essential that we do what is appropriate and prudent to encourage democratic developments over the long haul. It is by putting American resources behind a movement toward democracy that we realistically fulfill our national traditions.

In all our programs in strategic regions, we aim our economic aid -- both development assistance and economic support funds -- at the key requisites for growth:

-- First, rational macro-economic policies which provide an environment for growth by freeing up markets, creating incentives, and encouraging the private sector;

-- Second, developing capacities to use science and technology and build effective institutions;

-- Third, investing in agriculture which is the engine of economic growth in developing countries and the principal means for ensuring equitable, broad based development for the majority of their citizens.

We also stress population and allied health programs. As you know, rampant population growth underlies the third world's poverty and poses a major long-term threat to political stability and our planet's resource base.

There is a balance in our development assistance between programs which provide direct economic benefits to the poor majority and longer-term development of the human and capital resources needed to overcome conditions which cause poverty.

Our FY 1984 program also includes critical funds for the multilateral development institutions, particularly for fulfilling our pledge to the International Development Association (IDA), the soft loan window of the World Bank. Our commitment to share in IDA's worldwide program -- a program which we reviewed carefully in 1981 and found to be effective -- has been reaffirmed by the President at the recent meetings of world leaders in Cancun and Versailles. The priority item on the world's agenda today is restarting non-inflationary growth. The U.S. is urging private U.S. banks to continue a prudent flow of capital to less developed countries in order to support economic stabilization programs and stimulate growth. In this circumstance, it is not consistent and not credible for our government to continue to delay funds for IDA, which is a major source of growth capital in low income countries.

The funds which we are requesting for the FY 84 foreign affairs programs are modest in relation to our foreign policy objectives and our need for security. The appropriations request is slightly more than one percent of the federal budget and some four percent of the defense budget. Yet the purpose of these funds is to help create conditions in the less developed countries which reduce the need for military forces. Cuts in these programs would be inimical to our basic interests; they would force us to have higher defense budgets if we are to safeguard our national interests.

For instance, reductions of funds for the Middle East would undercut the President's Peace Initiative. Peace can not be secured by talks alone. Economic growth and stability are essential in Israel, Egypt, Jordan, and Lebanon as are adequate defense forces to insure these countries' security. Reducing these funds would enhance the possibilities of new Middle East crises in the future.

Reductions of funds for NATO would undermine the ability of Spain, Portugal, Greece, and Turkey to shore up the southern flank of the NATO alliance. They could also curtail our access to base and operational rights so necessary to our defense planning. Turkey's forces are obsolete and overshadowed by the build-up of Soviet forces north of Iran.

Spain has re-entered NATO but without adequate assistance will be unable to make this commitment militarily meaningful.

In the Caribbean Basin and Central America, the consequences of poverty and political turmoil have arrived directly on our shores: refugees stepping out of boats and off airplanes to present in person their claims for a better deal. Cuts in this program would both undermine the U.S.'s credibility as a solid partner in the region and help insure further turmoil in the future.

Beyond these immediate issues, it is clear that reductions in the multilateral and bilateral funds we've requested for economic development would also be an exercise in shortsightedness. Stagnant economies -- marked by falling real wages -- are the seedbeds of political instability. Reducing our investment in economic growth in the developing countries would secure short term gains and long term losses.

Mr. Chairman, every U.S. President since Harry Truman has endorsed our foreign assistance program as fundamental to U.S. interests -- political, economic, and security. Yet the American people are skeptical and Congress has steadily reduced the real resources it approves for this program. In this circumstance, we announced last week the formation of a Commission on Security and Economic Assistance. It will be headed by former Deputy Secretary of Defense, Frank Carlucci, and have three distinguished co-chairmen: Lane Kirkland, Director, AFL-CIO; Laurence Silberman, Vice-President, Crocker National Bank; and Clifton Wharton, Chancellor, State University of New York System, and Chairman of the Rockefeller Foundation. The Commission will, I hope, include members of Congress and will consult closely at all times with the Congress. I know the Commission will look forward to working with this committee.

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Let me conclude my remarks today by hearkening back to the FY 83 program. The FY 83 Continuing Resolution fell 9 percent -- a billion and a quarter dollars -- below our FY 83 request. Three-quarters of the security assistance funds were earmarked meaning that the shortfall in the unearmarked balance fell heavily on our strategic interests in Korea, in Southwest Asia, Central America, and Africa.

No matter how we slice it, the amount we received is inadequate to meet our minimum security requirements abroad.

Hence, we are requesting an FY 83 supplemental -- $251 million in new funds for Lebanon and $981.5 million to make up shortfalls in the 83 program.

Our objective in Lebanon is straightforward. We seek to restore Lebanese sovereignty and insure Israeli security. These objectives are two sides of the same coin. The threat to Israel does not come from the Lebanese people but from foreign forces that have usurped Lebanese sovereignty and are still camped on Lebanese soil. It follows that a peaceful Lebanon, free of all foreign forces and sovereign over all its territory, will make a major contribution to Israeli security.

We are currently engaged in diplomatic efforts seeking the withdrawal of external military forces and the restoration of Lebanese authority over its territory. At the same time, it is vital that the Government of Lebanon, weakened by years of civil strife, the inability to collect normal governmental revenues, and the lack of normal governmental services, be assisted in revitalizing itself. The financial situation of the government is precarious. It cannot move ahead with the reconstruction of the country without outside assistance. The U.S. can and must join with other nations in that effort. Both military and economic assistance are needed.

For the balance of the FY 83 program, the shortfalls and earmarks in the Continuing Resolution mean that the 1983 levels for unearmarked, military sales guarantee countries are nearly 50 percent below the request; grant military assistance (MAP) is 75 percent below the request.

Jordan, a potentially critical player in the peace process, will have its military assistance reduced by some 40 percent.

In Southwest Asia, military sales guarantees for Pakistan would be cut below the level needed to pay for military equipment already on order. Grant military assistance for Somalia and Kenya -- strategically located countries in and around the Horn of Africa -- would be cut by over 60 percent. Available funding will provide only for maintenance and spare parts. Sudan, which was threatened by Libya week before last, would suffer a similar reduction in military aid. Tunisia, which was attacked by Libya in 1979, would be cut over 40 percent in military sales guarantees and 85 percent in grant military assistance and would not be able to buy the military equipment it needs to defend its borders. These amounts need to be restored.

Turkey, a NATO ally which is putting its economic house in order, would see its economic support funds reduced by $100 million. We would fall short of our OECD pledge by that amount, with potentially adverse impact on the pledges of other OECD partners.

Grant military aid and military sales guarantees to Korea and Thailand, with North Korean and Vietnamese troops on their respective borders, would be cut by a third.

Smaller programs, in Latin America, Africa and the Caribbean Basin, both economic and military, will be hard hit, to the detriment of our efforts to promote the security and development necessary for peaceful resolution of conflicts. These amounts need to be restored.

Finally, I must underscore -- as I did earlier -- that the commitment to complete the United States' pledge to IDA is of similar weight and immediacy. The Congress has stretched out our IDA contributions from the scheduled three years to a fourth. Other donors have expressed extreme concern at what they see as a unilateral abrogation of a firm U.S. obligation. Nevertheless, they have taken the extraordinary step of providing an additional $2 billion in contributions to help cover the shortfall temporarily. This action was undertaken with the understanding, reaffirmed by the President at Versailles, that the U.S. would seek to provide $945 million in 1983 and to complete its IDA VI commitments in 1984. Failure by the U.S. to meet this adjusted schedule would cause our major allies to question the value of U.S. commitments.

I have selected only a few examples of the difficulties we face. Enactment of the supplemental authorization would restore these funds and enable us to meet our commitments and maintain our credibility as a reliable partner.

Mr. Chairman, as an accounting device, our budget divides expenditures into domestic and international programs. But -- as I pointed out at the outset -- that is an artifice. The U.S. security and economic assistance program promotes conditions abroad which are deeply in our domestic interests. I hope you will give both the 1983 supplemental and the proposed 1984 program your full support.

OPENING STATEMENT BY SENATOR INOUYE

Senator **Kasten**. Mr. Secretary, thank you very much.

Because we do have a number of people here, we will operate within a 10-minute rule, so that each Senator has a chance to ask questions, and we can go through two or three rounds of questions.

Before we begin, I would like to call on Senator Inouye for any opening statement which he might like to make at this point.

Senator **Inouye**. Thank you, Mr. Chairman.

Mr. Secretary, I wish to join my chairman in welcoming you here.

I am certain you are aware, Mr. Secretary, of my great admiration and respect for you, and I am certain you are aware also that I have always supported our bipartisan foreign policy whether it is this administration or the prior ones.

Indeed on many fronts I believe I have been a bit more supportive of the administration's programs than many of my Republican colleagues. So I think my record of support is rather clear.

But today as I survey the broad range of American foreign policy, particularly as it finds expressions in proposals of foreign assistance, I find a maze of contradictions. I hope you will not think I am being quarrelsome or that I am seeking partisan advantage when I question these policies or these contradictions.

PROJECT DEMOCRACY CAMPAIGN

Late last week you announced the $85 million campaign entitled "Project Democracy" saying that we should not be nervous about democracy. The sound of these words had scarcely quieted when the Justice Department announced it was nervous about democracy by labeling as propaganda three films that were produced by our democratic Canadian neighbor, the National Film Board of that country.

FALKLAND ISLANDS WAR

Last spring the United States stood by its ally, Great Britain, in its Falkland Islands war in which many British soldiers and sailors were killed, and now I find that we are proposing to provide military training to Argentina. I realize that these propositions are simplified, but that is the way I think many Americans see it.

EL SALVADOR DISCONTENT

The revolution in El Salvador continues to feed on economic discontent. We had a very important meeting this morning, as you know, and our response apparently is to provide an additional $60 million in military assistance. Very little is said about our economic response.

This morning in your prepared statement, I read about the economic stresses besieging the Third World. I looked to the administration's budget proposal for bilateral assistance and find that in comparison to the fiscal year 1981 budget, that is while this administration has been in office, development assistance has grown by only $157 million, whereas military assistance has grown by

$3,379,000,000. This is slightly more than $150 million increase in development assistance compared to an increase for military assistance in excess of $3.3 billion.

As you know, Mr. Secretary, much of this military assistance is provided in off-budget loans in the belief that these countries receiving these military credits will be able to repay them. But yet I believe this administration knows that many of these countries will be unable to repay their foreign military sales loans, and in fact, as shown in the fiscal year 1984 budget, record level outlays to meet defaults on these guaranteed loans.

Needless to say, Mr. Secretary, I am deeply troubled. I don't know what has happened to the American commitment to the poor and the impoverished of the world. Now how can we continue the pretense of providing military loans, which we know cannot be repaid, how can we explain the contradictions which appear to characterize U.S. foreign policy and how can military assistance, which obviously increases the debt burden of the Third World countries, answer the crying need for economic assistance?

These are some of the sad questions I hope you will address this morning.

I thank you very much, sir.

Senator **Kasten**. Thank you, Senator.

We will begin questions and I hope that the Secretary will have an opportunity to address some of the specific questions that you raised.

ASSISTANCE TO EL SALVADOR

As Senator Inouye mentioned, Mr. Secretary, we did have a meeting today on assistance to El Salvador, and there is also an article in the paper saying President Reagan is pressing Hill leaders on Salvadoran aid. The article specifically relates to testimony from Secretary of Defense Weinberger, who indicated in his testimony that the administration probably would take $60 million in aid from a $75 million fund for unforeseen emergencies, a procedure that would not require Congressional approval.

Mr. Secretary, I think it would be appropriate for you to tell the subcommittee specifically what the administration is proposing, but more importantly to tell the subcommittee your view of the overall situation in El Salvador.

PREPARED STATEMENT OF SENATOR HATFIELD

Senator **Hatfield**. Would the Chairman yield first? I wonder if I could have this opening statement placed in the record please.

Senator **Kasten**. Would you like to make an opening statement?

Senator **Hatfield**. No, I don't ask for that.

Senator **Kasten**. Without objection, so ordered.

Senator **Hatfield**. Thank you.

[The statement follows:]

Prepared Statement of Hon. Mark O. Hatfield, U.S. Senator From Oregon

Mr. Secretary, I want to welcome you on your first appearance before the committee. We are aware of the heavy demands on your time and very much appreciate your willingness to appear this morning, I am particularly pleased at the opportunity for a personal exchange of information, because my review of the administration's request for foreign assistance in fiscal year 1984 has left me deeply concerned. This committee is being asked to increase the level of funding for foreign assistance at a time when many other areas of the budget that directly assist people of this Nation are being cut. I have traditionally been supportive of foreign aid and I appreciate the purposes and goals which we pursue through these programs.

However, it is most difficult to continue my support when this administration repeatedly comes to Congress for higher and higher levels of military assistance. My review of the figures indicates that the military assistance account is expected to increase by $1.3 billion over the continuing resolution levels for fiscal year 1983 and $2.3 billion over levels appropriated by Congress in fiscal year 1982. The figures I have just mentioned do not include the proposed supplemental appropriations request for fiscal year 1983, a request which flies in the face of congressional intent as expressed in the continuing resolution. It gives the impression that our foreign policy is being increasingly driven by the insatiable appetite of the defense establishment.

Related to my concern over proposed military spending in the administration's request are the levels of funding for development assistance programs. The ratio of military assistance to development assistance is increasingly slanted in the direction of military assistance. In fiscal year 1982 that ratio was 53.5 percent to 46.5 percent and in fiscal year 1983 the ratio was 57.2 percent to 42.8 percent. That ratio becomes even more skewed under the current request and seriously jeopardizes the potential for passage of the foreign operations appropriations bill in fiscal year 1984. I would like to encourage the administration to take another look at the development assistance account and to recognize that there is a tremendous potential in that account to conduct foreign policy and win allies throughout the world.

Turning to Lebanon, I hope that I can be supportive of the request of $251 million in total assistance to that country. I am cognizant of the important infrastructure needs created as a result of the invasion of Israeli forces and the longstanding sectarian conflict. In addition, I appreciate the need to assist the Gemayel government in gaining control within its borders and in achieving the successful conclusion of foreign troop withdrawal negotiations. However, I want to emphasize clearly my continued concern that humanitarian needs be met, before diverting U.S. aid to infrastructure repair. Further, I want to reiterate my deep concern over the continued presence of U.S. troops in Lebanon and over the expansion of their role in the future.

I am equally disturbed by the continued provision of U.S. economic and military assistance to El Salvador. After more than 2 years of providing substantive amounts of aid to that country, the situation remains stalemated. It is my understanding that Assistant Secretary Enders suggested the possibility of negotiations with the guerrillas as a logical step toward resolution of the conflict and that you sharply repudiated this two-track approach. As you know, since 1981, I have consistently encouraged the administration to pursue negotiations with the guerrillas through a third-party nation, with no set preconditions. I urge you to seriously consider that suggestion, because the alternative is the very real possibility of drastic reduction of U.S. assistance to El Salvador in fiscal year 1984. Support for the status quo is rapidly eroding.

Lastly, the committee will soon be receiving a request from the Department of State to provide an additional $8.4 billion in quota resources for the International Monetary Fund in fiscal year 1983. While I have not yet arrived at a position on this matter, I am struck by what appears to be a huge inconsistency between the U.S. foreign military sales policy and the request for an increase in IMF quota resources. These increased resources are being requested to assist nations that have increasing debt-service problems, yet we are providing off-budget guaranteed loans at market rates to those very nations that are in the midst of debt reschedulings, i.e., Sudan, Turkey, et cetera. I am anxious to have you address this apparent inconsistancy and look forward to your doing just that this morning.

ANALYSIS OF PROBLEM IN CENTRAL AMERICA

Senator **Kasten**. If you could explain to this subcommittee the nature of the problem. It seems that it is a regional problem. It involves Central and South America, and it may even be a global problem. But if you could explain to us your analysis of the problem and then specifically the approach that you intend to take.

Secretary SHULTZ. Perhaps I could do that in the reverse order because the purpose of the meeting that the President held this morning with you and others who are here and the House side as well as the bipartisan leadership group was to share our views with you and hear your views and develop a process of consultation about what should be done, and how to do it and to do so on an intensive basis.

So I welcome this chance to discuss publicly here in the committee this question, and various people from the administration will be seeking appointments with you to talk individually about this subject with the hope that by early next week we might come together again and review the bidding, so to speak.

There are immediate problems, and there is the need to be sure that we are all on the same track and have as broad an agreement as possible on the general strategy being followed and what lies behind it and the stake that we have before us.

As far as the need for an additional $60 million of military support is concerned, I think the need for support is readily brought out by the fact that in fiscal 1982 the level of support was on the order of $80 million. It is proposed in the fiscal 1984 budget that that be about $85 million, more or less the same in real terms, but under the continuing resolution what we have available is $25 million for fiscal 1983, that in light of the fact that insurgency activity and the level of support they appear to be getting has not decreased but rather probably gone the other way.

So that presents an immediate problem of supporting that government and its ability to fulfill its military needs. That is something that we want to consult about. What the right amount is and how to get it is a question that we need to discuss; 506 is one method, reprograming is another, supplemental is another, and there are various ways and we need to determine together what is the best way.

As I said in the meeting, I shudder at reprograming because we have already reprogramed the funds around the world to a very considerable extent, and there is just not that much more there to work with. So we want to consult with you.

Now why this sense of urgency? I think it flows from our feeling, and there have been a great many people from the Congress visit in Central America here recently, and they have come back with generally similar feelings that the needs to combat the growing insurgency in Central America are very great, on the one hand, and, at the same time, going beyond the military aspects of the situation, the needs to promote economic growth and to develop a healthy and democratic situation there are very great.

We do have a strategy that I think is clear in its overall concepts and it is an important one based on support for economic development, based on support for democratic principles, based on the need to help our friends in that area have the military capacity to resist aggression, based upon the importance of denying the Soviet Union through its Cuban subsidiary an ability to come in and increase its influence in that area and, finally, based on our support for various democratic and diplomatic initiatives that are springing forth in that region, and I refer specifically to the call by Honduras, Costa Rica, and El Salvador last week for a regional discussion of peace prospects and of the San Jose principles put forward by those countries and other democratic countries in the region 6 or 8 months ago, which I think are principles on which we can stand and support.

There is so much controversy surrounding the El Salvador situation, and of course it has plenty of ambiguities in it for sure, but there is so much controversy surrounding it that we need to talk it over and get on a track that people generally support here so that we can sustain the effort. The ability to sustain an effort is critical.

ECONOMIC AND SECURITY ASSISTANCE TO EL SALVADOR

Senator **Kasten**. Mr. Secretary, specifically are you and is the President prepared to provide the Government in El Salvador with the economic and security assistance that they need, not simply to defend themselves, but the economic and security assistance that they need to take the offensive?

Secretary **Shultz**. Yes, sir.

Senator **Kasten**. And are you and is the administration reassuring the Government in El Salvador that we are not in any way trying to press a negotiated settlement with the guerrillas?

Secretary **Shultz**. What we would like to see develop there, and which seems to be developing with their Peace Commission announcement and other developments in the region, is the idea that you want to bring people into the system and let them take their chances in the democratic process. There is a presidential election now scheduled for March 1984—and this is a process that the insurgencies tried to prevent about a year ago at this time unsuccessfully—to draw people into that democratic process.

I don't see any excuse why we should be supporting the idea that people who have, by military and guerrilla tactics, tried to prevent a democratic election should now aspire to shoot their way in to a government. It just doesn't make any sense to me.

SOVIET MISSILES IN SYRIA

Senator **Kasten**. Mr. Secretary, I want to switch to a different part of the world. The recent reports out of the Middle East that SAM missiles, according to the reports at least, fully under the control of Russian personnel—not Syrian personnel—are now in place and they are within range of Tel Aviv and Beirut and evidently U.S. vessels off the Lebonon coast, obviously adds a whole new ominous element in our efforts to secure peace in the Middle East. Specifically, it seems that this would further set back the hopes for an early withdrawal of foreign troops from Lebanon.

What is your analysis of the situation, and what is the U.S. response to this provocation by Syria and the Soviet Union going to be?

Secretary **Shultz**. Well, this emplacement of a new set of missiles by the Soviet Union in Syria, as you said, is manned by the Soviet Union and not by Syria, and there is no indication that we see that they aspire to train Syrians to man these weapons; they are Russian manned. I think it is a sobering and destabilizing event in the Middle East not welcomed whatever, and we have so stated to the Soviet Union.

As far as the withdrawal of foreign forces from Lebanon is concerned and the emergence of a Lebanon sovereign over its own territory and of the development in the basic peace process itself is concerned, I think these moves only emphasize the importance of pushing and pushing hard on the objectives involved in those efforts. It is a difficult process. Some headway is being made, but it is a long, hard struggle. I think the potential destabilizing impact of the new Soviet missiles only emphasizes the importance of achieving the peace objectives which we have had all along.

Senator **KASTEN**. Senator Inouye.

HUMAN RIGHTS IN EL SALVADOR

Senator **INOUYE**. Mr. Secretary, I wish to follow up where my chairman left off on El Salvador. As you are aware, the Congress decided to set a few conditions on our aid to El Salvador. Many of us have had the opportunity to return home to meet with our constituents and, as you are well aware, I believe all of us have been deluged with meetings, especially with religious leaders, and it is difficult to find any religious leader in favor of our support for El Salvador. Their main contention has been that our demand for the upholding of human rights has not been followed by the leaders of El Salvador.

What is your response to that, sir?

Secretary **SHULTZ**. Our response is, to be sure, the situation is far from perfect and not what we would like to see it be. For example, Lopez, the lieutenant who, the evidence seems very strong, took part in the arrangements for the murder of two labor people there, is free. So there are problems. That is one, and we could talk about others.

It is also the case that there are many positive signs in El Salvador. So in the certification that I signed and which came to the Congress about 3 or 4 weeks ago, I guess we could point to a chart, for example, showing a general decline in the number of civilian deaths. So there are indications on both sides of the question.

What we are engaged in is the support of a government that is trying, out of a chaotic situation, to find its way to a more democratic forum, to establish its judicial capacity, and to develop itself economically. It is trying to do that in the face of a substantially sized guerrilla movement armed from the outside and which is dedicated to tearing the country up.

For example, in the last year they have blown up 55 bridges. Now that is not a contribution to economic development. Powerplants have been hit and so on. So the forces of opposition are basically destructive.

The Government that we are supporting is moving in the right direction, and I think very much continues to deserve our support in spite of the fact that there are many problems that are deeply troublesome.

EL SALVADOR AND OUR NATIONAL INTEREST

Senator **INOUYE**. This committee in the past, and I believe at this time, has always asked the question, Is this assistance program in our national interest? Is aid to El Salvador in our national interest, sir?

Secretary **Shultz**. Yes, sir, it is, without any doubt. It is in our national interest because, first of all, the country itself and the region are close to us. A great deal of our commerce flows through that region. It is part of our land mass. It is connected right up through to Mexico with whom we have a long border.

So the emergence of another country added to Cuba, Grenada, and Nicaragua, another country and then perhaps others to Soviet-Cuban influence is bad news for this country for our security interests.

Second, it is in our national interest to see this neighborhood prosperous and developing because it provides trade back and forth for our country, jobs here and raw materials coming this way; it is of great significance.

Third, this is an area from whom comes a tremendous flow of illegal immigration. The more prosperity there is there, the more peace, the more stability, the more people will stay home and thereby fewer problems we will have with illegal immigration in this country. I am not saying we shouldn't have immigration. I believe very deeply that we should, but we should be able to control our borders, and the more tension there is all around our borders, the more difficulty we have in controlling it.

So those are three reasons, and I think all-important reasons, security reasons, economic reasons, and social reasons why this is important to the United States.

CONSEQUENCES OF FAILING TO PROVIDE AID TO EL SALVADOR

Senator **Inouye**. Mr. Secretary, I have many questions I would like to submit to you for your consideration, but finally, what would be the immediate consequences of failure to provide the assistance that you are now requesting for El Salvador?

Secretary **Shultz**. Well, it is hard to say precisely what they would be, but it is clear that the military forces of El Salvador depend upon supplies coming from the United States. The military forces of the insurgency depend upon supplies coming from the Soviet Union. If we stop our supplies and the Soviets continue, I think that is not likely to yield a result which we want. I don't believe in dire predictions, but I think the conclusions from that scenario are fairly obvious.

I think we thereby consign people if they fall under the Soviet influence to economic stagnation. There is absolutely overpowering evidence that the Soviet system of organizing economies drags them down. So that is an unpleasant thing to see happening right in our neighborhood. So those are some of the consequences, and I think it is clear that they don't build walls around Communist-dominated countries to keep people from coming in. They build them because people want to get out, and they would find ways to get out, and we would find a greater and greater flow of people here.

Senator **Inouye**. Thank you, sir.

Senator **Kasten**. Senator Hatfield.

Senator **Hatfield**. Thank you, Mr. Chairman.

Mr. Secretary, I want to welcome you before our committee this morning and try to get this whole picture in a little more context for myself, at least.

DATE OF BASIC POLICY OF AID TO EL SALVADOR

What would be the date that you would place on the current basic policy that is being followed by this administration in terms of the dual track of economic and military assistance in El Salvador? You would date it about when?

Secretary **Shultz**. Well, I think that, broadly speaking, a policy of that kind was more or less in place, and, as I understand it, the administration embarked on this approach right from the beginning.

Senator **Hatfield**. No; but how many years prior to this administration would you date this particular policy that is being followed?

Secretary **Shultz**. Well, I don't know how to put a precise date on it, Senator.

Senator **Hatfield**. Five years?

Secretary **Shultz**. I would say this: I think we have been very slow in this country to wake up to the economic deprivation and the inequities and the distribution of income right in our own neighborhood, and we need to be paying attention to those problems.

FIVE-YEAR AID PROGRAM TO EL SALVADOR

Senator **Hatfield**. I couldn't agree with you more. Let me put it this way: How long has this particular guerrilla insurgency been part of the El Salvadoran scene?

Secretary **Shultz**. It was there, although not anywhere near as vigorous as right now, as I understand it, when this administration came into office.

My friend over here and counselor says 1978.

Senator **Hatfield**. 1978. That was my recollection. So in effect this is about a 5-year policy that we have been following to different degrees and to different levels of assistance.

Do you have any figure, or can you provide for the record how much money has been expended in the economic-military assistance to El Salvador during that 5-year period, or can you give us an estimate?

Mr. **Schneider**. I don't have the figures with me.

Senator **Hatfield**. Could you supply that?

Secretary **Shultz**. Yes, sir. It is a good-sized figure though.

[The information follows:]

U.S. ECONOMIC AND MILITARY ASSISTANCE TO EL SALVADOR

[Millions of dollars]

	1978	1979	1980	1981	1982	Total 1978–82
Economic [1]	10.9	11.4	58.30	114.00	186.10	380.70
Military [2]	(3)	(3)	5.95	5.49	82.00	123.44
Total	10.9	11.4	64.25	149.49	268.10	504.14

[1] Includes development assistance, economic support funds, Public Law 480, title I and title II, Peace Corps.

[2] Includes foreign military sales, military assistance program and international military education and training.

[3] Less than $50,000.

PROGRESS IN EL SALVADOR

Senator **Hatfield**. A good sized figure. Well, that leads me then to the next question, and that is would you give me an assessment of who is winning?

Secretary **Shultz**. Well, I believe that a considerable amount of progress has been made in the last couple of years. We do have in Honduras a government that is struggling toward democracy. We do have in El Salvador a government that reflects an election about a year ago. I think it is a fair statement that had the United States not taken strong action, El Salvador might now be in a very different condition. So I think there has been some progress.

On the other hand, there is a sense of stagnation now in the military situation in particular, and I can't help but believe myself that with all of the difficulties that country has, the fact that our support has declined from a level of $80 million annual rate to $25 million annual rate when the problems they are dealing with are at least as severe, has a good bit to do with that.

Senator **Hatfield**. Mr. Secretary, we are really talking in terms of approximately. I think you will find your record of $750 million moving close to $1 billion that we have put in El Salvador following this particular policy. I don't think that fiscal year 1983, which is not going to expire until October, and with the supplemental that you are going to make as a request can be blamed for whatever stalemate exists now.

In my view, there are a number of problems, and I would like to have you comment on the progress of them. One of them has been the difficulty in uniting a responsible disciplined military force.

You have the regular army, you have the Treasury force and you have the National Guard, and particularly the latter two have been in the past at least criticized for being the source of many of the atrocities committed in the rural areas as against the most disciplined regular army.

You have the land reform issue that tries to bring equity or at least it was committed to bring equity to the people, and you have that age-old I think most generally agreed by experts in guerrilla warfare that guerrilla warfare can only be successful if it can live off the countryside and thereby elicit at least a major support from the people themselves.

Why I ask you who is winning, I think ultimately the winner is going to be the side that has the support of the people. I am not at this point convinced that this policy we are following and have been following has done very much to increase the support of the people of El Salvador. I am not impressed that we have that kind of basic support for the government we are supporting.

I just was wondering if we are in a process of changing our policy, or how are we going to follow a policy that continues this so-called stalemate? Was this morning's meeting at the White House, that I was very delighted to participate in, the beginning or a signal that somehow we may be in the process of changing the policy that has not brought conclusion or brought results or brought a higher percentage of support of the people of El Salvador?

Secretary **Shultz**. Well, I think you make an important point in using support of the people of El Salvador as a touchstone, and I would have to ask you, sir, how you interpret the fact that a year ago roughly 80 percent, as I understand it, of the eligible people came and voted in an election in spite of the determined effort on the part of the forces you were describing to violently prevent people from voting? It seems to me that is a pretty clear demonstration of where the people are in terms of what they want to support.

Now to be sure, the government has had its difficulties in getting itself organized and its armed forces organized, but nevertheless, in terms of which side are the people on, I think that election tells a very big story.

Now what among the things that is being advocated down there is that as the next Presidential election comes along, whenever that may be, that the forces of insurgency take their chances in an electoral forum, and then we will find out who people support by votes.

RATIO OF MILITARY TO ECONOMIC AID

Senator **Hatfield**. I would agree that that is good evidence at that point in time, but my question really is, What has been the policy of delivering what the people's expectations were when they took those risks that they took in order to exercise their franchise? That is what concerns me because actually when you look at the trend of aid it seems like we are getting a higher rate of aid ratio to military and less to economic.

I am still reminded that 40 percent of the deaths in rural El Salvador caused by natural deaths are children of 5 years or under who die of starvation or malnutrition. It seems to me a government that is going to pursue land reform or develop an agricultural subsistence base, wherein is that money being provided or that assistance? That is what really concerns me.

We always find an easy way to increase military support, but I am not so sure that we have been as eager here at the congressional level to follow the needs of the economic base upon which the society ultimately has to be stabilized.

Secretary **Shultz**. Under Secretary Schneider has given me some proportions. In fiscal 1982 in El Salvador, in terms of the total flows, our economic aid amounted to 73 percent of the total and 27 percent was to the military. In fiscal 1983, given the situation from the continuing resolution, it is 89 percent economic and 11 percent military. The fiscal 1984 proposal is 70/30.

Senator **Hatfield**. That was by congressional action and not by administration requests though, sir.

Secretary **Shultz**. The difficulty is, as I am sure everybody must recognize, that it is almost futile to talk about expanding an economy which the infrastructure that you are trying to build on, is being blown up by these guerrilla forces. What kind of a contribution is it to economic development in El Salvador to blow up 55 bridges? What kind of a contribution is it to the well-being of the people of El Salvador to knock out their powerplants, and so on and so on and so on? I think it is pretty clear where the source of deprivation and difficulty for economic and development of El Salvador is coming from.

Senator **Hatfield**. I have some other questions that follow through on this that I will be happy to submit to you for the record. I want to work with you in resolving this, but I want to say again, and I hope that I did read the signals correctly, that, as you say, you are seeking to evolve a consensus policy between the White House and the Democrats and Republicans in the Congress and I certainly welcome that action on your part and the administration.

TOTAL 5-YEAR FUNDING IN EL SALVADOR

I have for the record now given to me a compilation of the amount of money we have spent in El Salvador in the last 5 years as $894 million, almost a billion dollars, and I think it is time to review that policy that we have been following for 5 years and I welcome this signal.

[The questions to be submitted by Senator Hatfield appear at the conclusion of the hearing.]

CARIBBEAN BASIN INITIATIVE RUM TAX

Senator **Kasten**. Senator Johnston.

Senator **Johnston**. I thank you, Mr. Chairman.

Mr. Secretary, as I am sure you are aware, Puerto Rico and the Virgin Islands have experienced some economic difficulty of late. Twenty percent of the local tax revenues of the Virgin Islands and a lesser percentage but very significant percentage in Puerto Rico come directley from the rum tax, the rum industry there.

Under the Caribbean Basin Initiative of this administration, the rum proposals would destroy that rum industry by equalizing tariffs between those two possessions and the rest of the Caribbean. The reason it would destroy them is because there are no minimum wage, no clean water rules, et cetera, in Jamaica or Barbados or other neighboring islands and industries in the Virgin Islands and Puerto Rico would relocate elsewhere where the cost of doing business is much less.

As an alternative to the administration's proposal on rum, the Governors or Puerto Rico and the Virgin Islands, along with the Delegate from the Virgin Islands, have proposed an alternative which would in effect keep a tariff on bulk rum while doing away with the tariff on bottled rum and putting the difference in a fund to be distributed throughout the Caribbean.

My question is, Are you aware of that proposal and, if not, would you and your staff give careful consideration to it? Because, in my judgment, it would be very wrong indeed to destroy the rum industry in Puerto Rico and the Virgin Islands and export those jobs elsewhere without a quid pro quo for these territories.

Secretary **Shultz**. I will look into that and make a statement back to you after I have done so.

Senator **Johnston**. Thank you very much, Mr. Secretary.

[The information follows:]

RUM PROPOSAL OF THE VIRGIN ISLANDS

We are aware of the proposal of the U.S. Virgin Islands that the duty on bulk rum be retained and that proceeds from excise taxes and import duties on all rum from CBI beneficiary countries be placed into a Caribbean development fund. We have studied this proposal closely and Assistant Secretary Enders has discussed it with Virgin Islands Governor Luis. We are preparing a detailed response to Governor Luis on this issue.

We have concluded that the CBI Legislation, which provides for duty-free entry of all Caribbean rum, should not be modified. We also believe that the benefits to be derived from such a Caribbean development fund are less than might at first appear.

As concerns effects on the rum market, Puerto Rico and the U.S. Virgin Islands already produce 96 percent of the rum consumed in the United States. Rum consumption has been increasing steadily. We believe that this expanding market can absorb increased imports from the Caribbean without serious harm to Puerto Rican or Virgin Islands production.

We recognize the importance of excise taxes on rum to the treasuries of Puerto Rico and the U.S. Virgin Islands. The CBI legislation contains a provision that would rebate those excise taxes plus excise taxes on all imported rum to the treasuries of Puerto Rico and the U.S. Virgin Islands. It would thus result in an increase in such revenues to those treasuries. These revenues could conceivably be used to assist the rum industries of Puerto Rico and the U.S. Virgin Islands. While those industries in the U.S. Caribbean do face the expenses of U.S. minimum wage and environmental laws, they also possess certain advantages. For example, the Virgin Island rum industry, which employs less than one hundred people, receives a subsidy from the island treasury to cover 90 percent of its Virgin Islands income tax, and an additional subsidy to cover the cost of molasses above 16 cents per gallon. In 1978 these two subsidies were worth around $200,000 and $700,000 respectively.

The CBI legislation also contains other relevant provisions intended to assist Puerto Rico and the Virgin Islands. These provisions would explicitly permit industries there to petition for import relief under the 1974 Trade Act, would provide increased duty-free access for certain products from the U.S. Virgin Islands and from other possessions outside the Customs territory of the United States, and would reduce the burden of environmental restrictions on the U.S. Virgin Islands rum industry.

As concerns the idea of a Caribbean development fund funded by rum revenues, serious questions of allocation would arise. Since rum-exporting countries would be indirectly contributing to the fund, it would be logical and fair for them to receive a large part of its benefits. We find, however, that the major rum-exporting countries in the Caribbean, chiefly Jamaica and Barbados, in some ways have less urgent need for additional developmental assistance than do the smaller Caribbean states which are not significant rum producers.

Finally, the symbolic importance of rum as part of the CBI is great. Rum is the only manufactured product which the U.S. imports primarily from the Caribbean region, and a CBI trade bill which excludes rum would look hollow indeed. In this regard, I should mention that I recently received a joint letter from the Ambassadors of six Caribbean nations urging the administration to support duty-free entry of rum under the CBI and not to adopt the development fund proposal as an alternative. These countries, which would be the major beneficiaries of such a regional development fund, have stated their strong preference for duty-free treatment of rum instead.

IMF PROCEDURES

Senator JOHNSTON. Now, Mr. Secretary, I am very concerned about the ponderousness, the clumsiness of the IMF procedures for determining how we, to use the pejorative, "bail out" various countries and indeed bail out banks.

I read a report in the Washington Post of February 23 entitled "Smaller Banks/Loans Complicating Brazil Rescue." What is reported here is that regional banks such as Riggs National Bank, First Minneapolis, National Bank of Detroit, Cleveland, Los Angeles, et cetera, are reducing their loans to Brazil markedly, and in the case of Riggs, from $43 million to $8 million, and similar amounts with these other banks.

Now the whole idea, as I understand it, of the IMF is that we are going to put up altogether an emergency loan fund of about $99 billion, in the hopes that this will save the whole $700 billion debt portfolio of these developing countries. The methodology by which it will happen is that by giving this infusion of capital, we will get these banks to lend additional moneys on longer terms.

The difficulty, it seems to me, is that we have no way to insure that the banks will bear their proper proportion of the loss, and there has indeed been a loss. If you were to rate these loans, they would be rated as being worth much less than 100 cents on the dollar, but for an IMF bailout.

We were discussing in the anteroom before this committee began the sense in America of outrage at bailing out some of the biggest banks in the land, which is the one industry which has done very well, thank you, in this recesssion. And yet they are going to be bailed out by taxpayers' money when all of the other programs are being cut.

My question again is, What can we do to keep these banks described here from in effect taking the money and running and not bearing their proper share of the responsibility, their proper share being, it would seem to me, to grant long-term loans at lower interest rates and keep the credit coming and do so on a fair and equitable basis? How can we insure that they will do that?

Secretary **SHULTZ**. Well, it is a very difficult problem. I think the deeper answer is that we do it by holding the international financial system together, and the IMF is doing yeoman work in that respect, and we have policies that will bring about recovery and expansion in the world economy because many of these debts which look very bad right now will look entirely different in the context of an expanding world economy where export markets are there and investment looks worthwhile again than they do right now.

So, I think the fundamental point is to follow policies that will lead to that expansion, and I would be glad to go into that if you would like.

In the meantime, however, I think the IMF, as it works with these country programs, also works with the banks involved, and it is a problem to keep the banks engaged and particularly the so-called regional banks which have not taken the lead in these syndicates that they are a part of. They have gone in with larger banks that have staffs in these countries and presumably have a better capacity to analyze what is going on. But in order to keep the syndicates and keep the groups together, it is important to keep the regional banks involved and that is a difficult problem for the syndicates, no doubt about it.

EFFECTIVENESS OF IMF MACHINERY

Senator **JOHNSTON**. Well, are you satisfied that the IMF machinery is totally sufficient to deal with the problem?

Secretary **SHULTZ**. Well, they have leverage, and they are using it effectively and intelligently, but it is not a perfect situation and you can't just order people around either. So, it is a problem.

Senator Johnston. Well, you can in effect if you tell them you won't continue to put up your share of the credit, that you are not going to, in effect, get your loan underwritten by the IMF, unless you do put up your fair share.

Secretary Shultz. Well, I don't think it is quite that simple. What the IMF does is basically work with the country that has the debt problems on its sort of internal management of its economy in its fiscal affairs having in mind the objective of that country being able to take care of its servicing its debts over a period of time in the IMF funds being in there as a kind of a bridge to sustain them through that period.

Senator Johnston. Well, I understand that. The IMF puts up money or credits or guarantees to that country and then that country works it out with the banks. But it seems to me that the fault in the machinery is that the banks are not drawn directly into a tripartite negotiating mode with the banks present. If the banks do not agree to put up what is right, I think the IMF ought, with the country involved, to say you don't get paid 100 percent on the dollar, Mr. Riggs, or Mr. Cleveland National Bank or whoever you are.

Since we are going to be asked to put up this additional money in the Congress for which there is not a great deal of support cut there in the hinterlands, I think our constituents are going to want to know that it is not a total bailout in the sense that banks that made high-risk loans on which, when times were good, they made great profits don't get 100 percent on the dollar and not put up any additional credit. That is wrong, and that is why I think the IMF machinery or the way they use the machinery is faulty.

Thank you, Mr. Chairman.

Senator Kasten. Senator Specter.

MISPERCEPTIONS OF FOREIGN ASSISTANCE AS CHARITY

Senator Specter. Thank you, Mr. Chairman.

Mr. Secretary, I join my colleagues in welcoming you here, and I want to lend my voice in applauding your efforts since you took on this very difficult job.

As a preliminary statement I would like to put on the record the comment or two I made to you in the anteroom about the grave difficulty of foreign aid at this time given the very severe problems which exist back home.

My travels through Pennsylvania have led me to many meetings where the voices are loud and vociferous and bitter on many subjects, and foreign aid is near the top of the list, and it is very difficult to proceed on these foreign aid programs which I have supported in the past, given the very serious situations back home.

When you responded that the situation may improve with an uplift in the economy, I think it is important for the administration to note that while the unemployment rate has gone down by four-tenths of 1 percent nationally on the last figures that in some States like Pennsylvania it has gone up very materially by about nine-tenths of 1 percent.

So that the administration's efforts in trying to find a national solution to the problem of the economy to get the kind of support from the American people from an overall program is going to have to take that very much into account as we take a look at the matters which you have presented to us here today and the IMF and many, many others.

Turning to El Salvador specifically——

Secretary **Shultz**. Could I make a comment on that general subject?

Senator **Specter**. By all means.

Secretary **Shultz**. I agree with you that we need to do a much better job in the administration and the Government generally in identifying just what the interests of the United States are in these expenditures which basically flow through other countries, and we, I think, are seeing in this flow of money a gradual shift from the notion that we are a good hearted country, and we want to help those who are less fortunate than we are and so we make, in effect, charitable donations. I think that is the image that these sums have been cast in.

Personally, I would like to think that we are a goodhearted nation, and we are willing to help less fortunate people, but this program that is being put up here today has, I think, the fundamental justification that it is in the interest of the United States, in our security interests, in our economic interests and in our social interests, as in the exchanges here this morning I have tried to bring out.

I don't think that that idea, that connection is well understood. So we need to do more to try to get it understood, to get out around the country. I need to do that and others do.

It was in the light of this feeling that we have appointed, and Peter McPherson has basically been the one who has put this together, a Commission to work on these matters with topnotch people, and we aspire to involve the Congress and members of this committee in that work and try to work out for ourselves just what the stake of the United States is in these expenditures, and personally I think it is a very great stake.

Senator **Specter**. Mr. Secretary, that is the response I give when I speak and it is understood but it is not believed. I was in a suburb of Pittsburgh in White Oak and barely escaped with my skin a couple of weeks ago and foreign aid was a big point. I said it is in our national interest and we got down to the nitty-gritties of where the money was going specifically. People just don't accept it when their unemployment compensation has lapsed and their health plans have lapsed and unemployment is going up.

So it is a matter which is going to have to be addressed with real intensity if we are to have the kind of sufficient support which will enable Representatives in the Congress to continue to support these programs.

EL SALVADOR CERTIFICATION

Let me turn, if I may, to El Salvador specifically in light of that being No. 1 on the hit parade with the request which is current. Turning to your certification on January 21, I studied it with some care, Mr. Secretary, and I appreciate the care in your conclusion that there has been some progress. You limit it very materially.

But as I read the facts, I have grave doubts as to the accuracy of the conclusion when I turn to what you have reported—that as to political violence it continues to diminish, although at a slower rate than at the time of the previous certification.

Next, efforts to control abuses by members of the armed forces were the subject of increased attention of the Government of El Salvador and continue to show slow progress. It is nonetheless clear, and this report documents, that human rights abuses continue and that civilian deaths attributable to political violence from all sides have fallen to not more than 200 a month, although previously it had been some 800 a month back in 1980.

Now, the issue of continued assistance to El Salvador turns upon meeting the certification requirements of the Congress, and I have a real question that that is being done given the facts which are reported and the inevitable inference that facts are hard to really pin down with precision. But, even on the basis of those which you have stated here, it doesn't look like progress to me.

Secretary **Shultz**. Well, I think that I felt that it was progress, slow progress, some progress. I didn't claim in that report that the promised land had arrived by a long shot, but I think there has been some progress. That is a characterization that I made of facts that were presented extensively in the report.

So that if you have a different conclusion based on the same facts, you are entitled to your conclusion, but it does seem to me that there has been some progress.

Senator **Specter**. Well, it is a judgment call obviously. You have to make the certification, and without a certification of progress continued aid doesn't proceed by the standards set by the Congress. But it troubles me very much as I read through the report. I commend you and your Department for your candor in making this presentation, but the conclusion is very, very troublesome.

ASSISTANCE TO LEBANON BY ARAB NATIONS

Mr. Secretary, you talked about aid to Lebanon, a supplemental of $251 million. What aid is being provided by the other Arab nations to Lebanon compared to what assistance the United States is giving Lebanon, considering the perhaps greater resources that Saudi Arabia or some of the other oil-rich Arab nations might be able to provide even with the reduced price of oil on the international market?

Secretary **Shultz**. I think the general answer is disappointingly little. Mr. McPherson has been to Lebanon several times and has carried the laboring oar on this in the administration, and I am going to ask him to speak to what we are doing and what others are doing as we have tried to organize resources through the World Bank and other means.

Mr. **McPherson**. The Arab community immediately after the problem provided substantial charitable contributions for relief purposes. They went through private sources, and we don't know the exact amount, but it was several million.

Senator **Specter**. About how much, Mr. McPherson?

Mr. **McPherson**. We really don't know. It was several million, but there was no public figure.

Senator **Specter**. Comparable to the $50 million that we put up immediately afterward?

Mr. **McPherson**. No, it was less.

ARAB CONTRIBUTIONS TO LEBANON

Senator **Specter**. Mr. Secretary, I have a concern about that. I would appreciate it if you would provide me with the details because that issue comes up again and again in balancing our contribution with the contributions of the Arabs who might be able to better afford it.

[The information follows:]

Arab Relief Contributions to Lebanon

Arab governments have made it clear that, while prepared to help Lebanon, they are holding back official commitments until they are more certain of the prospects for Israeli withdrawal and the nature of relations between Lebanon and Israel.

Nevertheless, Arab nations have contributed significant amounts of relief and reconstruction assistance to Lebanon through the International Committee of the Red Cross [ICRC] and UNICEF. The ICRC has so far received nearly $4 million and UNICEF over $8 million from Arab donors for their programs in Lebanon.

Unofficial Arab assistance is flowing into Lebanon through private channels. The chief example of this is the massive cleanup of the war damage in Beirut financed by the King of Saudi Arabia. While no official estimate has been made of the overall level, indications are that this private assistance could be as much as $50 million.

At the summit meeting of the Arab League, the Arab leaders pledged $2 billion over 5 years for the reconstruction of South Lebanon. However, only some $380 million has been provided so far; the remainder appears to be frozen.

ISRAELI SHARING OF INFORMATION

Senator **Specter**. Well, let me move on to another question, if I might, because the time is so limited here, the issue which has produced some controversy is that of the sharing of information between the United States and Israel about the experience from the recent conflict there.

What is the status of that at the present time and the prospect for some agreement between our Nation and Israel?

Secretary **Shultz**. Well, that is a question better addressed to Secretary Weinberger since he has been working on it with his counterpart in Israel, but as a general proposition, it seems to me that it is very important for us to share this information. My understanding of the approach of the new Defense Minister of Israel is that he also believes it is important that Israel share this information with the United States, and we should be able to find a satisfactory way of doing so.

SELECTION OF AMBASSADOR ADELMAN TO HEAD ACDA

Senator **Specter**. Mr. Secretary, let me turn to one other question in the moment or two that I have left. Although it is not within the direct purview of our subject, it is very much on my mind and many minds. I refer to the nomination of Ambassador Adelman as Director of the Arms Control and Disarmament Agency. I had occasion to meet with Ambassador Adelman at some length, have written to you on the subject and have expressed my concerns there. I will await your response, but one question that I would like to explore at this moment is the timing of his appointment, and what I understand to be the case that there was some urgency, if not haste, on his designation on the same day that Ambassador Rostow was to be replaced.

My question to you is how fast was Ambassador Adelman selected as a replacement to Ambassador Rostow? I infer that you gave it the consideration you felt necessary, but how much consideration and deliberation of alternative possibilities were considered by you, the President or others who were involved in the decision to put Ambassador Adelman's name forward?

Secretary **SHULTZ**. There were a variety of names considered. The process was relatively short, but very intense. In the end it was everyone's judgment and the President's judgment, since he is the person making the nomination, that Ambassador Adelman was the best person for this job working with this President.

Senator **SPECTER**. When you say short, just how short was it, Mr. Secretary?

Secretary **SHULTZ**. Oh, I can't reconstruct the amount of time involved, but of course there have been struggles over nominees to lead that organization, I gather, since this administration came to office. There was a long period of time in which Eugene Rostow's name was being considered by the Senate, and it was never possible to get Senate confirmation of nominees to be his Deputy and No. 3 person. So it has been a long process in which the leadership in that agency has been up in the air. Of course, in a time like that there are lots of names around. So it isn't as though all of the sudden the subject arose and it is the first time anybody thought of it. It had been thought about a great deal.

Senator **SPECTER**. Thank you very much, Mr. Secretary.

Thank you, Mr. Chairman.

Senator **KASTEN**. Senator Leahy.

ROLE OF THE CHURCH IN EL SALVADOR

Senator **LEAHY**. Thank you, Mr. Chairman.

Mr. Secretary, even though you don't feel this is El Salvador day, I would still point out that I do have a couple of questions. I have been long concerned about the situation in El Salvador.

As I see, it is now approaching nearly $1 billion in aid down to a little country that geographically at least is smaller than the State of Vermont, and, heck, it is even smaller than the State of Massachusetts, you wonder just what is happening.

I have talked with our military people, our intelligence people, and they feel I think pretty generally as I do that there is no ultimate military solution in El Salvador short of moving in massive amounts of American troops, which no one has suggested nor would anyone condone.

So I wonder if we are reaching a point where we are going to think of some way to get off the battlefield and into a political arena for a solution. In light of that, I have noted with interest the change in the position of the Salvadoran Catholic Church. Next week the Pope is going to be making a visit there, an historic visit. He will be visiting El Salvador on that trip I think for a period of about 9 hours.

So in anticipation of that, I would just like to go over a couple of points he and the Salvadoran Bishops have made in the past 6 months, and I say that as one who had high hopes for the elections which were held almost 1 year ago in El Salvador. As you point out in your testimony, 80 percent of the people turned out for those, but we see the continuation and even the deterioration of the situation in El Salvador.

As early as last July of last year the Salvadoran Bishops issued a pastoral message for the need of dialog between all parties to the conflict and the Pope wrote to them describing the conflict as:

> A war placing on one side those who consider armed battle a necessary instrument for obtaining a new social order, and on the other side those resorting to the principles of national security to legitimize brutal repression.

Just last month Bishop Rivera y Damas, the Acting Archbishop, called by name on the guerrillas, the political opposition, the Government and the army, all four, to begin a dialog process. There is a similar call for dialog in the international community. The International Christian Democracy as well as our regional neighbors, Canada, Venezuela, Mexico, Panama, and others have all called for a political settlement.

I mention that simply to give a background to my question, and I ask it to you especially as one who has had great success as a negotiator and one who I would think would be one of the most talented people to deal with this. What is your analysis of the Catholic Church's position there? How do you feel about their statement of a need for dialog?

Secretary **Shultz**. I think those who are outside the government and wanting to shoot their way in should be urged to put their arms down and come in to an established political process, and if they feel they have a right to leadership, let them stand up at the ballot box and have the results counted.

Senator **Leahy**. Do you really think though that that is going to happen before we can start any kind of a negotiation or discussion? You seem to almost be saying that if we enter into negotiations that somehow either we or the Salvadoran Government lose. Is that really the situation? I mean is the church that wrong? Is the church that far off in El Salvador in calling for this kind of negotiation?

Secretary **Shultz**. Well, I am sure that the motivations of people in the church, as all of us, are to establish peace so that conditions of stability can obtain and people have a chance to develop themselves economically. But to me that doesn't mean that you go to people who have been blowing up bridges and powerplants, who made a determined and armed and violent effort to prevent people from going to the ballot box and expressing themselves and say, OK, shoot your way into this process. I don't think that makes any sense, and I don't think it would, in the end, be fruitful.

Senator **Leahy**. Well, I share, of course, your concern with the destruction of property down there and destruction of bridges and destruction of power companies and some people's businesses, but I also have a far greater concern, the destruction of human lives, tens of thousands of human lives. People have been killed by both sides, by both the left and the right, in some of the most brutal murders imaginable.

I am concerned about the murder of Americans down there. Notwithstanding the investigations and the efforts that we have given and everything else, these cases do not come to trial. I find the destruction of human life of even more concern to me, Mr. Secretary, than the destruction of property.

Secretary SHULTZ. I share that concern and it comes from the same cause.

Senator LEAHY. I am sure you do, but I also just want to make sure that I fully understand. You feel that the Salvadoran church is off base in calling for this type of sort of four-party dialog?

Secretary SHULTZ. It seems to me that the right program is the one that the democracies of that region set out in San Jose about 6 to 8 months ago. It is a definite negotiating track, a diplomatic track and it calls for the elimination of major offensive weapons in any of those countries, the cessation of the shipment of arms from one country to another, the reconciliation of dissident groups within each country and the effort to seek a democratic pluralism in those countries, and I think that is a good program.

Senator LEAHY. I also agree with you on the cutting off of arms considering the fact that apparently the guerrillas are now getting more of their arms at least indirectly from the United States. They have captured them from the armies that we support.

Secretary SHULTZ. There are stories I have seen in the papers on that, but that is not the information that I have. There are U.S. arms, some captured in Vietnam, that have been cycled around in there and there are no doubt some captured from the army.

SOURCE OF ARMS IN EL SALVADOR

Senator LEAHY. Do you feel that there are more arms coming to the guerrillas via Nicaragua or via arms that they capture from Salvadoran military forces in the last 4 months?

Secretary SHULTZ. The preponderance of their arms, and they are modern, come via Nicaragua.

Senator LEAHY. And if we were to be told anything differently by say the intelligence arms of our Government, then they would be wrong?

Secretary SHULTZ. The understanding which I have, on which I based my answer to you, is what I get from the intelligence arms of our Government. So I don't think I am saying something that they disagree with.

Senator LEAHY. Now let me ask you another question, Mr. Secretary. Last December, I believe it was in December during the lame-duck session, the so-called Boland amendment which had been in the earlier report language was passed in open session, report language which prohibits any arm of the United States from seeking to overthrow directly or indirectly the Government of Nicaragua. I raise this because it was debated and voted on in open session by both the House and the Senate and statements were made by the administration, open statements at that time.

Is the Boland amendment being followed today? It is the law of the land. Is it being followed by our country?

Secretary **SHULTZ**. Yes, sir.

Senator **LEAHY**. With no reservations?

Secretary **SHULTZ**. With no reservations.

Senator **LEAHY**. Thank you.

Let's go to another area, and I raise the same concerns that Senator Specter has raised. I come from a State where foreign aid and the reason for it has been a well understood matter. The first Secretary to the United Nations was a Vermonter, and we have had distinguished people from George Aiken to Elsworth Bunker to a number of current Ambassadors who are from Vermont. But I find even in my State that view is changing because of the economic problems in this country.

You have made very forceful, and I think very good statements on this, and I would hope you would urge the President to make similar statements on the need for foreign aid, because it will be much easier to get the kind of bipartisan support I think that is needed for that.

REQUESTS FOR SECURITY AND ECONOMIC ASSISTANCE

But let's just look at where these budget requests are. Aside from the issues of IMF and the banks, the breakdown between security assistance and development assistance suggests some startling rates of growth. Development assistance is basically straightline with an inflation matching 4-percent increase. ESF, however, goes up by 10 percent or so, but when we get to the military programs, MAP goes up by 157 percent, IMET up by 25 percent, and FMS guarantees up by 21.9 percent.

Now if you look at those in constant dollars for 1984, foreign economic assistance has actually gone down by 7 percent and international security assistance has gone up by 42 percent. Is this what we should state when we are explaining to our constituents what is the basic thrust of foreign aid from this administration?

Secretary **SHULTZ**. You can take the figures on security and economic assistance and change the way they are organized, and you can change those percentages around. For example, in the fiscal 1984 request you can classify security assistance and economic assistance as stated in such a manner that 63 percent of the total is security assistance and 37 economic assistance.

On the other hand, if you break out what is called security assistance, the economic support funds and classify that along with economic assistance, you can change the proportions from the ones that I gave to 53 percent economic, 43 military and 4 percent other. So there is a certain amount of maneuvering that can be done with these numbers that would put a different slant on their proportionate importance and the rate of increase.

However, having said that, I think it has been the judgment of this administration, and the President, and the Congress has basically concurred, that the security aspects of this total budget were being somewhat shortchanged and needed to be built up. So there has been an effort to do that. But in terms of the breakout for fiscal 1984, the proportions that I have read represent where we are.

Senator **LEAHY**. Thank you.

Mr. Chairman, I probably want to submit a couple of other questions for the record, and I suspect I will be submitting a couple of classified questions for the record.

Senator **KASTEN**. There are a number of members of the subcommittee that have indicated they would like to submit additional questions.

Mr. Secretary, I know your schedule is such that you want to be leaving here at about a quarter after or 20 after. I would like to see if we can get through one more round of questions, and we will switch now to a 5-minute limit to try to work within your time constraints and still give the members of the subcommittee an opportunity for one or two additional questions.

Obviously your success and this administration's success in terms of foreign policy is going to be largely measured by the matters concerning the Middle East, and I would like to ask a couple more questions about our policy there.

ARM SALES TO JORDAN

First of all, when can we expect an arms sales proposal to Jordan to be presented to the Hill? There has been a lot of rumor, and there has been a lot of speculation as to what the date might be and what that proposal might be. When can we expect that to be presented to the Hill, and what will be the justifications for such sales, given Jordan's continued unwillingness to enter the peace process?

Secretary **SHULTZ**. I don't have a date or a composition to put to you at this time. It remains to be seen. I do feel that it is not helpful in encouraging King Hussein to come into the peace process and to have it out in front that a majority of the Members of the Senate will be against selling him any arms. That is particularly relevant since when you speak to him about taking risks for peace he is very conscious of the risks, and they have been spelled out to him in his visits to other capitals.

I might also point out that you made a point of the fact that in Syria, never a country with a warm relationship with Jordan, we now have Soviet missiles manned by Soviet forces. So threats coming from that direction no doubt must be taken seriously. So personally I was distressed that the petition or the resolution has appeared at this time because I don't think it helps us any in promoting the peace process.

But as far as your question of when would an arms sales request come forward, I don't have the answer to that on timing or exactly what it would contain. We don't have a request before us at this point.

WITHDRAWAL OF FOREIGN TROOPS FROM LEBANON

Senator **KASTEN**. In the Mideast we have been spending a great deal of diplomatic energy and pressure on trying to get the Israelis to withdraw from Lebanon. There has not been at least corresponding press coverage of efforts, nor any reference to any specific agreements in the media as to the corresponding withdrawal of the Syrian and PLO troops from that country.

What assurances, if any, do you have from Syria that their forces will be withdrawn when Israel withdraws her troops?

Secretary SHULTZ. They have said they will to me. They have said they will to the Lebanese. They have said they will in the Arab League meetings. So in response to the question, they have given that answer.

Senator KASTEN. And the same is true for the PLO?

Secretary SHULTZ. We don't talk to the PLO, but the Lebanese do, and it is our understanding that when the Syrians leave, the PLO will also leave. Now when it comes to the withdrawal of the forces of Israel, there are clearly security concerns that Israel has about conditions in southern Lebanon that are prerequisite to Israeli withdrawal. Since that area has been in the past a staging base for guerrilla warfare against northern Israel, it is understandable that Israel is concerned. So a careful and impatient, but nevertheless understandable process of negotiation is going on.

I would only say this as far as the Syrian intentions are concerned, it is hard to call that card, namely, that they will withdraw when the Israelis do until we have a timetable and say, all right, here is what the Israelis are prepared to do. Now you put that card on the table. We are calling it.

Senator KASTEN. The assurances you have from the Syrians take the form of discussions that we have had or our representatives have had or are there written or other kinds of assurances from the Syrians either to the Lebanese or to our negotiators?

Secretary SHULTZ. As far as I know, they are oral statements that have been made.

CHINA AND TAIWAN AND THE ASIAN DEVELOPMENT BANK

Senator KASTEN. Mr. Secretary, what is the State Department's view of the status of Taiwan as a member of the Asian Development Bank in connection with the efforts being made by the People's Republic of China to become a member of the Asian Development Bank?

Secretary SHULTZ. The People's Republic of China has indicated a desire to join the Bank, as I understand it, not through us, and has also stated that in that connection it expects that Taiwan would be expelled from the Bank. This is a matter that is coming into the official circles of the Bank at this point in time and is being considered by the members.

Senator KASTEN. What is the State Department's view of this?

Secretary SHULTZ. Our view is that if the People's Republic of China wishes to come into the Bank, then, assuming that they meet the conditions for membership, that that is a constructive thing to have happen. On the other hand, if Taiwan in the process is expelled from the Bank, then I think that will cause great difficulties for the Bank as far as support from the United States is concerned, and we have expressed that viewpoint in various Asian circles.

Senator KASTEN. Senator Leahy.

THE CHURCH AND ITS CALL FOR NEGOTIATION

Senator LEAHY. Thank you, Mr. Chairman.

To come back, Mr. Secretary, a bit to El Salvador, and I hate to keep pounding on this, but like Senator Specter and others, when I go back home, and I go up to Vermont nearly every week, I hear questions on a number of subjects, and this is one that comes back and back and back, and I am concerned that when I respond I state what the administration's position is and I state it most accurately. That is why one of the things that has been raised by various church groups obviously is the call that I referred to earlier, and to make sure I fully understand your objections to that, let me read something that Archbishop Rivera Y Damas said in October just to put in perspective a couple of historical points I would like to bring up.

He said, according to an Associated Press cable:

> A specialized group of the Organization of American States in its Annual Report On Human Rights In El Salvador said that the election made it clear that there is a desire among the people for a democratic government and a definitive solution to the internal conflict has been bleeding the people of El Salvador to death for some time.

Incidentally, I think both you and I would totally agree that that is what the people felt when they went to vote.

But then it goes on to say:

> Unfortunately, the elections have not provided a solution to the country's problems and at the moment there continue to be serious violations of the right to life and personal security.

This is the Archbishop's opinion:

> In my opinion certainly the problems of the country are serious and given the abnormality of war the time is relatively short for seeing satisfactory results. But we see that when it is so desired, the violent acts diminish, for example, in proximity to the certification given by President Reagan to the Congress in the week before last.

Now when his predecessor, Archbishop Romero, appealed to the army troops and the paramilitary groups to end the violence, he was assassinated while saying mass. A few weeks ago after a defeat in the Constitute Assembly, Roberto d'Aubuisson and his party apparently issued death threats against those in the Assembly who had voted against the party. As a parliamentarian, I would probably be a little bit nervous if I took an opposite position from some of my colleagues and go home that night and find that my family is being threatened.

Now I mention those things simply because if we say we will march in, guys, march in and stop the fighting, and we will work this thing out, but you march in here first and then engage in elections, what assurances can be given that if this happened, if efforts were really made by the guerrillas that they would live long enough to see the results of it? I say that not in any way condoning the atrocities that they have committed.

Secretary Shultz. It is a difficult situation, and a process, if there is any good will at all, needs to be put in place whereby the gains that could be achieved for everybody through a process of reconciliation would become apparent enough to make a process have some validity. But I can't give you any kind of a categorical answer to this situation. It is full of difficulty and full of ambiguity, but at the same time I am convinced that the assumption of power in El Salvador by the same group that is in power in Cuba and

Nicaragua with the same source of support is bad news for the people of El Salvador, for the people of the United States, and I might say for the churches of El Salvador. There is nothing great about the way religion is treated in the Soviet Union.

Senator LEAHY. So what you are saying is the choice is really then between continuing the way we are or having the Soviet Union take over El Salvador. That almost sounds like what you are saying.

Secretary SHULTZ. I am not saying that at all. I am saying that we have to have a strategy and do have a strategy that has many strands to it, and one of those strands is the help to the duly constituted Government to have the military capability to stand up against the insurgencies and basically to beat them, and, second, to develop an economic program that has in it the possibility for a better life for people in the region, and, third, to maintain the basic idea of a democratically based government there, and, fourth, to help to bring this about by engaging in a process of diplomacy such as what was started or proposed by Costa Rica, Honduras, and El Salvador just last week.

Senator LEAHY. Do I understand you correctly to say that you feel that there is a military solution in El Salvador, and, secondly, when you mentioned the Church and the Soviet Union, and now we have jumped a continent here, but is the situation of the Church, for example, in Nicaragua the same as it is in the Soviet Union, in your opinion?

Secretary SHULTZ. No, it isn't the same, but it had some very rough periods recently, and I think they found that that was somewhat unpopular and they changed themselves around a little bit. But it wasn't a very pretty picture to take a priest and run him out naked down the street, for example.

So I don't think there is question about the fact as to which kind of society best provides for freedom of religion, and it isn't the Soviet kind of society at all.

Now as far as a military solution is concerned, in my opinion, there is never a military solution to anything. That is not the way you solve problems. But it doesn't mean that military strength isn't a necessary ingredient sometimes to working out more genuine solutions based upon negotiations and diplomacy.

Senator LEAHY. Thank you.

Thank you, Mr. Chairman. This will make it easier for me to explain the administration's position when I go back home this weekend.

Thank you.

Senator KASTEN. Senator Specter.

THE IMF AND BANK LIABILITIES

Senator SPECTER. Thank you, Mr. Chairman.

Mr. Secretary, I would like to pursue the question of the International Monetary Fund a bit as pursued initially by Senator Johnston.

There is a lot of concern that I have noted about the position of the banks on their interest rates because the standard has been that it ought to be inflation plus a limited percentage, and consistently for the past two years the interest rates have been much higher than the economists said was traditionally appropriate.

In assessing the situation that the banks are in, there is concern about the policy which the administration wants to achieve. But I would like to see, if it is possible, an analysis from your Department of the Treasury, wherever it is appropriate, as to what these specific banks have done by way of interest rates in the past, what they have achieved by way of a profit, and what would be a fair allocation of the losses in terms of some capital loss by the banks before we seek to put up $8.4 billion into this breach.

Stated in a sentence, I think we are going to need a real tough analysis as to where the banks have stood in the course of the past several years and what losses they are going to sustain before Congress should be asked to put up this very substantial sum of money.

Secretary **SHULTZ**. Well, I am sure that the Treasury is the Department of the Government that has the competence to provide an answer to your question, and I will be delighted to refer it to Secretary Regan. I know that he will be testifying and has been testifying on this general issue.

I think it is a fair enough point that when banks make bad loans that that ought to get reflected in how well they do. On the other hand, I think we have to be careful, too, that we don't get ourselves so oriented to seeing to it that the banks take it on the chin that we fail to provide the environment that we could provide that will keep the economic system functioning well and give a chance for recovery to come along and thereby put all these debts in a better perspective and everybody is made whole by that process.

Senator **SPECTER**. Well, why shouldn't the banks take it on the chin when they have made such enormous profits at the same time on their risk taking? Why shouldn't they take it on the chin for their losses on risk taking when they have made such big profits in what may be an unconscionable way at the same time with a very high interest rate?

Secretary **SHULTZ**. I think they should. On the other hand, all I am saying to you is if confronted with a proposition that says here is situation "A," the banks have been obliterated and the economy is in chaos, and here is situation "B," the economy is operating pretty well and some banks have gotten away with a little murder in the process, I will take "B."

MIDDLE EAST COUNTRIES ATTITUDES TOWARD ISRAELI RIGHT TO EXIST

Senator **SPECTER**. Mr. Secretary, I would like to shift gears to the Mideast on the President's peace initiative. On the cornerstone of it, the recognition of Israel's right to exist by the Arab nations, we see a great deal in the media as to who was saying what publicly, and who means what privately. Could you state in a summary form which of the Arab nations you believe would be willing to accede to that basic tenet of the President's initiative, that is Israel's right to exist as a nation?

Secretary **SHULTZ**. King Hussein has said that explicitly.

Senator **SPECTER**. And beyond King Hussein, who else, Saudi Arabia, Syria, Iraq, and Iran?

Secretary **Shultz**. I think the most interesting statement to read is the one made by King Hassan of Morocco at the White House after the conclusion of his luncheon with the President. That is on the record. When he made that statement he had standing behind him the Foreign Ministers, if I can recall it, of Morocco, of course, of Tunisia, of Saudi Arabia, of Syria, of Algeria, and of Jordan.

Senator **Specter**. Mr. Secretary, are you suggesting that Syria has made an adoptive admission by remaining silent in that circumstance?

Secretary **Shultz**. No. I am just saying that when the person who is the head of the Arab League makes a statement with all those people standing there, it has some meaning. You asked me where to find the best statement of where people stand that I could think of, and that is the best one I can think of because it is public, and because it was made here, and because it was made in the presence of a spectrum of Foreign Ministers or countries whose views have been very different.

Senator **Specter**. So you think all of those nations would accept that basic proposition, Israel's right to exist?

Secretary **Shultz**. No, sir, I don't say that. I say that the Arab World has, I think, had a considerable rearrangement in its thinking. Basically what King Hassan said was that while his conditions are very different from others' conditions, that he thinks it is time to sit down and try to negotiate a peace treaty with Israel. That is what it comes down to.

JEWISH EMIGRATION FROM THE U.S.S.R.

Senator **Specter**. Mr. Chairman, may I ask one more question about Soviet Jewry as a final question?

Senator **Kasten**. Yes.

Senator **Specter**. Mr. Secretary, the statistics on emigration from the Soviet Union are at an alltime low with Mr. Andropov's new policies. Do you think there is anything that the U.S. Government can do at this time to create a situation where the Soviets will permit more Jews to leave the Soviet Union?

Secretary **Shultz**. Well, we would certainly like to see that happen. The Helsinki Accords would suggest that it ought to be much more possible for people who want to leave a country to leave it. It is a subject that we bring up every time we meet with somebody from the Soviet Union, and I suppose it is a subject that might be asked the churchmen who want to see Soviet influence in El Salvador improved and maybe they can find a tradeoff.

Senator **Specter**. Thank you very much, Mr. Secretary.

Thank you, Mr. Chairman.

Senator **Leahy**. I wonder if you might submit for the record, Mr. Secretary, the names of those churchmen who want to see Soviet influence increased in El Salvador because I certainly would want to be the first to write to them and tell them I think that is a terrible idea. So if you would please submit that for the record, I would appreciate it. We already have on the record of course that we are following the Boland amendment and also have on the record the degree of arms coming. I don't think we need additional matters, unless we submit further questions, but please give the names of those churchmen. I think it is outrageous that they should do that.

Secretary SHULTZ. I will respond right now, Senator, that when you follow policies and advocate policies that are bound to result in that effect, that is what you are doing even though you don't get up and say this is my objective. I am not saying that is what their objective is.

Senator LEAHY. Please give us the names of those people because I think they should be severely criticized.

Secretary SHULTZ. I have answered the question right now.

IMF QUOTA INCREASE

Senator KASTEN. Mr. Secretary, as I mentioned in my opening remarks, we are going to have a separate hearing on the IMF quota increase problem. I think it is clear that we will be wanting to work with you on the IMF question and work with the Secretary of the Treasury, as well, including possibilities for changes in conditions and conditionality of IMF lending and maybe changes in banking regulations. I don't think you are going to find the same receptiveness with respect to the IDA request, which has already been rejected on the floor of the Senate, as you know, at a lesser amount than you were requesting.

THE IMF AND STATUS OF SUBMISSION

I wanted to just follow up in conclusion on one question that I asked you in the budget committee. Has the administration now decided whether or not the IMF request will be sent up as a 1983 supplemental?

Secretary SHULTZ. Well, I think there are some discussions going on about that. I would rather not say. Secretary Regan basically has the lead on that.

Senator KASTEN. We get one message at noon and then another comes at 3 o'clock, and they are in conflict with one another.

Secretary SHULTZ. Don't pay any attention to any message you get from the State Department on this subject. It is a Treasury matter. [Laughter.]

SUBMITTED QUESTIONS

Senator KASTEN. Before we close the hearing for today, Mr. Secretary, the committee has additional questions which we will ask you to answer for the record.

[The following questions were not asked at the hearing, but were submitted to the Department for response subsequent to the hearing:]

QUESTIONS SUBMITTED BY SENATOR KASTEN

ISRAELI-U.S. INTELLIGENCE COOPERATION ON THE LEBANON WAR

Senator Kasten: Mr. Secretary, the recent announcement that the United States would not enter into an agreement with Israel to obtain military intelligence which was gained during the Lebanon war is at best puzzling. Why is the United States rejecting this agreement, and specifically how does this agreement differ from that which we had with Israel after the 1967 and 1973 wars?

Secretary Shultz: On March 21 Israeli Defense Minister Arens announced that the Government of Israel would proceed with the sharing of information on lessons learned during the Lebanon conflict on the basis of previous agreements governing the exchange of intelligence between our two countries. In making this announcement, Israel acknowledged that there was no need for a separate agreement to govern this particular exchange of information. The State Department's press spokesman welcomed Arens' announcement the same day. I can assure you that there will be a full exchange of information on this subject between our two governments.

INQUIRY ON VIOLENCE IN ASSAM INDIA

Senator Kasten: Mr. Secretary, we are all painfully aware of the events leading up to and the results of the commission that investigated the massacre in Lebanon. I do not need to elaborate on the public outcry that rightfully demanded that Israel look into the part that she played in that horrible tragedy. Will India be as forthcoming as Israel was in examining who is responsible for the massacre there?

Secretary Shultz: The massacre that occurred at Nellie in Nowgang District in Assam State on February 18-19, and the violence and numerous other deaths that accompanied the holding of recent state elections in Assam, have been the subject of intense debate in India. All views, including those strongly critical of the official handling of the election and of the government's response to the Nellie massacre, have been expressed in Parliament, the press, and among the general public. The normal reaction in India to incidents of mass violence in the past, especially where they involved inter-ethnic clashes, has been to appoint a judicial inquiry commission, usually headed by a distinguished jurist. There have been demands that such a commission be named to investigate the Nellie tragedy.

The Indian Government's view appears to be that, because the Nellie tragedy is not an isolated outburst or limited to one specific area but is instead only the most extreme incident of a series of violent confrontations that have occurred in Assam, efforts at the present time to establish individual responsibility for incidents in isolated rural areas might only heightened tension.

Without totally ruling out the establishment of a judicial commission, the Home Minister of the Government of India told Parliament on March 14 that priority had to be given to supporting the newly elected Assam State government's efforts to restore law and order and to provide relief to the many thousands of people uprooted by the violence. The Minister noted that the Assam State Government has appointed a high level administrative inquiry committee to investigate the violence and stated that it would be up to the state government to decide whether to establish a tribunal for the determination of individual responsibility in the massacre.

Senator Kasten: Have you had any conversations with officials in the Indian Government regarding such investigation?

Secretary Shultz: The Department has not discussed an investigation with the Indian Government, but the subject has been raised in conversations our Embassy officers have had in India with both majority and opposition members of Parliament.

FOREIGN ASSISTANCE - LEBANON

Senator Kasten: The Administration is seeking a substantial supplemental for Lebanon -- $150 million for economic assistance and $100 million for military assistance. Are we coordinating with other donors, at least with respect to the economic assistance, such as the World Bank and other bilateral donors? If not, don't you believe that before we go ahead with this substantial foreign aid program we ought to have in mind what a coordinated effort should be?

Secretary Shultz: Early on, we began a process of coordination with other donors concerning both economic and military assistance. We encouraged the World Bank to take the lead in coordinating world-wide assistance to Lebanon. The Bank sent a team of experts to Lebanon last fall to analyze Lebanon's reconstruction needs in order to determine priorities and to quantify those needs in financial terms. Within a few days, the Bank will release the report on its findings. Once that report is distributed, we expect the Bank to call for a coordination meeting of all donors.

In the interim, we have consulted privately with current and potential bilateral donors, both to encourage them to participate and to share program goals. We have consulted frequently with the World Bank, to make sure that our respective programs will complement each other.

U.S. RELATIONS WITH GREECE AND PROPOSED ASSISTANCE FOR TURKEY

Senator Kasten: Mr. Secretary, there is a lot of concern being expressed over the amounts of assistance being requested for Turkey in the Fiscal Year 1984 budget, and what that might do to the balance of power in the Aegean, while at the same time we have seen rather disturbing rhetoric from our long-time friends in Greece. Two questions: What is the prospect for turning back the rather harsh rhetoric and coming to terms in Greece; and what is our response to those who fear that large amounts of assistance to Turkey may well end up being used against her Greek neighbor?

Secretary Shultz: We have made known to the PASOK government since its election in October 1981 that the United States wants to have the best possible relationship with Greece under its governance. Although the Greek government has taken public positions which differ from U.S. policy on some issues, it has also stated its intention to pursue good relations with the U.S. Greece is a democracy and a partner in NATO; unanimity of opinion on all matters is not to be expected in an alliance of democracies. We are in the process of discussions on a new Defense and Economic Cooperation Agreement with Greece which forms an important focus on our security relationship. We believe a new agreement regarding the U.S. military facilities in Greece is both possible and in the interest of both countries, and we are negotiating seriously to that end.

We recognize that Greek-Turkish differences in the Aegean, which involve complex legal questions of airspace, territorial waters, and continental shelf, have deep historical roots which cannot be easily overcome. We also appreciate their differences over how best to resolve the Cyprus situation. At the same time, we do not believe a military solution to resolve these differences is desired by or is in the interest of either country. It is important for all concerned that a structure of peace be maintained in the Eastern Mediterranean region based on a constructive, mutually beneficial relationship between Greece and Turkey. We continue to urge both countries to exercise restraint and to work to achieve the best possible relationship. It is in the interest of the United States to have a strong Greece and a strong Turkey, within the NATO Alliance, working in the common effort to defend Western values, and our security assistance programs for both countries are aimed at achieving this. The increased aid we have requested for both Turkey and Greece will help both countries meet urgent NATO obligations and thus will contribute directly to this goal.

Our security assistance to Turkey since the lifting of the embargo in 1978 has primarily been used for operation and maintenance of equipment introduced in the 1950s and 1960s. The increased assistance proposed for FY'84 would enable Turkey to upgrade existing equipment and permit some replacement of aging equipment which can no longer be supported. The proposed increase would not make an immediate or dramatic change in Turkish strength, nor would it cause an increase in the size of Turkey's armed forces.

U.S. RELATIONS WITH MOROCCO

Senator Kasten: There are many who feel we ought to be doing more to help our friends in Morocco in view of that country's very strong support of the United States. This is especially true because of Morocco's help in putting forward U.S. policies in the Middle East. What is the current Administration thinking with respect to our relations with Morocco?

Secretary Shultz: Our relations with Morocco are excellent and we consider a close relationship with a friendly Morocco important to our own security. Morocco has concluded an Access and Transit Agreement with us which will help us deploy U.S. forces in defense of the Gulf in certain contingencies. Rabat also has played an active and constructive role in the Middle East peace process by facilitating an Arab consensus and helping improve communication between the Arab world and the U.S. Morocco's strategic location, finally, is a significant factor bearing on our ability to honor our treaty commitments in the Mediterranean basin and beyond.

For these and other reasons we have tried to be helpful to Morocco in its economic development efforts and its security. Economic assistance requested of the Congress in FY'83 has come to $13.5 million of development assistance, $25 million of PL-480/Title I, and $10.5 million of PL-480/Title II.

In FY'84, we are asking for $19.0 million in development assistance, $25 million in PL-480/Title I, $9.9 million in PL-480/Title II, and, for the first time, $7 million in ESF.

On the military side, the Administration requested $25 million in grant MAP and $75 million in FMS credits in FY 83. Congress agreed but the Administration, confronted by urgent requirements in El Salvador, was compelled temporarily to reprogram $52 million in FMS credits for this Moroccan allocation. We are now asking the Congress for resources with which to restore these funds. For FY'84 we are requesting $30 million in grant MAP and $60 million in FMS. Given the importance of Morocco to the United States and the scope of its needs in its difficult current economic circumstances, we urge the Congress to honor the requests set forth above.

BENEFITS OF PAKISTAN PROGRAM

Senator Kasten: Mr. Secretary, as you know, this Committee has expressed some concern with reference to the Administration's economic and military assistance package to Pakistan. For many, it is difficult to understand, first of all, exactly what benefit the U.S. is receiving from this relationship that requires such a large program; and, secondly, there is concern that the military hardware being provided while being justified as defensive and a deterrent to Soviet mischief, in fact it is being deployed solely with India in mind. Could you give us a better understanding and explanation for that program, and our relationship with that country?

Secretary Shultz: We believe that the contribution to Pakistan's security and stability is itself important in meeting U.S. objectives in South and Southwest Asia. That region is of critical strategic importance to the United States and is presently threatened by Soviet expansionism. Pakistan, located at the crossroads of South, West, and Central Asia, is strategically placed within that region. A stable Pakistan, one of the world's largest Islamic states, can serve as an anchor for the entire region, lending its considerable weight and influence to the cause of regional peace and harmony. Conversely, an unstable, insecure Pakistan can add to regional tensions and invites outside interference. Our assistance program, which both bolsters

Pakistan's security and symbolizes the firm U.S. support for this frontline nation, has been a vital element in making it possible for Pakistan to adopt and maintain its courageous posture on the Soviet invasion of Afghanistan despite Soviet pressures.

Our assistance program is also designed to meet additional goals in our relationship with Pakistan. We believe that a program of support which provides Pakistan with a continuing relationship with a significant security partner and enhances its sense of security may help remove the principal underlying incentive for the acquisition of a nuclear weapons capability. In addition, our program of economic assistance also supports the Pakistan Government's efforts to suppress opium poppy production and contributes to the economic development and political stability of the country.

The program of assistance we have established with Pakistan will not have any measurable impact on the Indo-Pakistani balance of power. We believe that Pakistan has entered into a modernization program which is logically constructed to improve its defense readiness across the board. The equipment they have purchased to modernize their aging material is not tailored to fit the requirements of either border but is of general utility, as befits a country with limited resources to provide for a national defense. In fact, some of the Pakistani purchase decisions seem designed to ensure their utility in meeting challenges from a number of different directions. For example, the Pakistanis opted for the older, medium M-48 tank as opposed to the more modern, heavy M-60 tank at least in part because its smaller size would make it more easily transportable throughout Pakistan, including in the rougher terrain of the northern areas. In conclusion, the individual purchases made by the Pakistanis neither challenge India's position in the region nor are aimed at the east rather than the west.

QUESTIONS SUBMITTED BY SENATOR HATFIELD

FOREIGN ASSISTANCE - LEBANON

Senator Hatfield: Given the restraints placed on you by the delicacy of the current negotiations, can you give us some idea of what you foresee as the role of U.S. aid in Lebanon?

Secretary Shultz: The goal of U.S. assistance to Lebanon is to help that country become united, independent, with full sovereign powers of its government within its own boundaries and free from external interference. Our assistance consists of both economic and military aid. Together, they are intended to help the Lebanese Government meet the economic and security needs of the Lebanese people. The economic aid will act as a catalyst, attracting both other assistance and private investment which will play the major role in rebuilding Lebanon economically. Our military aid will bring the Lebanese Armed Forces up to a level which will allow the Government of Lebanon to exercise full sovereignty throughout the country and help secure Israel's northern border.

MULTINATIONAL FORCE

Senator Hatfield: The Gemayel government has asked for an increase in the size of the multinational force, and Secretary Weinberger has indicated that an increase is likely to occur. Are we, in fact, committed to an increase? If so, under what circumstances and what size might an increase force reach?

Secretary Shultz: Although the government of Lebanon asked several months ago for an increase in the size of the MNF, no decision has been made concerning an increase in the U.S. contingent. Any decision concerning the expansion of the MNF in Lebanon must await the outcome of the present talks between the Lebanese and Israeli governments.

DEPARTURE OF U.S. FORCES

Senator Hatfield: Is there an estimated date for removal of U.S. forces?

Secretary Shultz: There is no set date for the departure of U.S. forces from Lebanon. We clearly do not envision an indefinite stay, however.

UNIFIL

Senator Hatfield: Is it correct to assume that the negotiating parties are unalterably opposed to the use of a United Nations peacekeeping force? What is our position concerning a U.N. force?

Secretary Shultz: Lebanon remains committed to the retention of the UNIFIL contingent for peacekeeping in Lebanon and was instrumental in achieving the extension of UNIFIL's mandate until July 1983. Israel opposes the use of any international peacekeeping forces in southern Lebanon, but has not objected to the retention of UNIFIL for use elsewhere in Lebanon. The U.S. continues to maintain that UNIFIL's troops are a valuable part of peacekeeping arrangements in Lebanon and, therefore, that UNIFIL should be retained. The exact role and mission of UNIFIL cannot be determined until further progress is made in the negotiations currently underway.

PAYMENT FOR U.S. TROOPS

Senator Hatfield: What account is absorbing the cost of the U.S. troops in Lebanon?

Secretary Shultz: It is our understanding that the majority of the funds used to support the U.S. contingent are from the Defense Department's O & M account.

U.S. FORCES IN THE MIDDLE EAST

Senator Hatfield: Mr. Secretary, we have a U.S. force in

Sinai; we have a U.S. force in Lebanon; we very well could have had U.S. forces in Egypt recently. Are you at all concerned that the U.S. is becoming a policeman for the Middle East?

Secretary Shultz: Americans can be very proud of the contribution of U.S. military personnel to peacekeeping operations in the Middle East. It is a mark of the trust which other nations place in our political motivations and commitment to peace that they have asked us to undertake these roles. I find it heartening that other members of the international community also recognize this responsibility. Neither the peacekeeping forces in the Sinai nor in Lebanon are controlled by the U.S. or contain exclusively American troops. Both the MFO in Sinai and the MNF in and around Beirut have large numbers of troops from other countries, including some of our Western allies, who share our commitment to establishing and maintaining peace in the Middle East. This shared commitment recognizes that the West has a compelling interest in preventing new conflicts in this region, and the U.S. is not acting in isolation to protect those interests.

LEBANON/PEACEKEEPING FORCE

Senator Hatfield: Are there any contingencies associated with the funds requested in the supplemental appropriations bill for Lebanon (i.e., a breakdown in troop withdrawal negotiations, escalation of sectarian fighting, the fall of the central government, etc.) that would result in the United States halting distribution of those funds?

Secretary Shultz: We are committed to assist the Government of Lebanon. That program is, of course, under continuing review to ensure its maximum effectiveness as the GOL extends its authority and control throughout the country. We would not, however, wish to speculate about the circumstances under which the program might be curtailed or halted.

Senator Hatfield: How is Phase One of the Lebanese troop modernization being funded?

Secretary Shultz: Phase One is being funded primarily by cash and prior year FMS credits ($25 million).

Senator Hatfield: In what years were those funds appropriated?

Secretary Shultz: These funds were appropriated in FY'81 and '82.

SECURITY ASSISTANCE AS A FOREIGN POLICY TOOL

Senator Hatfield: Military assistance appears to have become the primary tool of U.S. foreign policy. Is it, in your view, the best tool with which to pursue that policy?

Secretary Shultz: It is difficult to say which of the tools of U.S. foreign policy is the primary or best tool. We utilize the best available foreign policy tool, dependent upon the circumstances existing at the time and the nature of the issue.

However, as I have said in my testimony, military assistance is a useful and cost-effective tool. Our global economic and security interests mandate that we work to ensure stability. The least desirable method to ensure this is through the use of U.S. forces. The most desirable is through the commitment of a modest amount of resources.

And military assistance is cost-effective -- it costs far less to help maintain equipped foreign forces, than to station and maintain U.S. forces abroad. We count on access and transit rights, as well as prepositioned equipment and supplies for the use of our Rapid Deployment Force and other strategic forces in the event of a crisis. Finally, security assistance helps maintain a strong industrial base in the United States.

MILITARY ASSISTANCE AND DEVELOPMENT

Senator Hatfield: U.S. military assistance goes into the most volatile areas of the globe. Its recipients are among the poorest of the developing countries. Is it possible that our military assistance is actually retarding development?

Secretary Shultz: I don't think so. Development can come about only in an environment of stability. If countries are faced with actual or potential internal or outside aggression, they will not be able to pursue economic development effectively until such conditions have been addressed. U.S. military aid responds to the need to establish a stable environment within which economic growth and development takes place. Second, provision of U.S. military assistance can permit some countries to use their own resources to pursue growth. Absent such assistance, scarce domestic resources might totally be diverted to security concerns. Finally, a total shift of all of our assistance into economic aid would not necessarily lead to development, because the dangers of aggression and instability would remain.

MILITARY ASSISTANCE AND ECONOMIC GROWTH

Senator Hatfield: During the Senate Foreign Relations hearing recently, you were questioned by Senator Dodd about the decline of development assistance and increases in military assistance and whether this direction is encouraging economic growth. You responded that a healthy economy is important for stability in a country; but that "it's hard to imagine that kind of economic growth, if you don't have stability in the military situation." Would you tell us in what manner increasing assistance increases economic growth?

Secretary Shultz: It is my view that a sense of security and political stability is a precondition of economic growth. Because U.S. military assistance helps address recipient country security concerns, it helps establish the necessary conditions for growth. For example, domestic and foreign investors weigh numerous factors in arriving at an investment decision, including political and military stability. Investor willingness to go into a particular country may certainly be influenced by whether U.S. military assistance is helping a government deal with an unstable situation. Commercial banks and other lenders also would welcome a more secure and stable situation. Domestic capital typically reacts unfavorably to domestic turbulence.

FMS PLACEMENT ON-BUDGET

Senator Hatfield: A recent GAO study suggested that the entire FMS program be placed on-budget. What do you foresee as the result of such action, particularly with respect to the ratio between military and developmental assistance?

Secretary Shultz: The Administration studied the advantages and disadvantages of the idea and decided not to do it in 1984. The FMS financing program is a small part of the FFB program.

The FMS program has a good re-payment record. For the most part, the borrowers are ones who could borrow from U.S. capital markets.

Placing FMS on-budget in FY'84 would certainly have an impact on the ratio between the two types of assistance. Unless we received full relief in Function 150 budget ceilings, either security or economic assistance would have to be cut. You will recall that the President's 1983 request suffered more than a $2 billion cut.

RISKINESS OF FMS GUARANTEED LOANS

Senator Hatfield: The Appropriations Committee requested the Congressional Budget Office to prepare an analysis of the President's Budget for FY'84. Page 122 of that document states that "a substantial portion of the (foreign military sale guarantee) loans should be considered risky." What is your reaction to that statement? Is it correct or incorrect? What's your justification for proceeding with these loans in light of that statement?

Secretary Shultz: We share the basic concern regarding the ability of developing nations to repay FMS guaranteed loans. In our judgement, CBO somewhat overstated the element of risk. No country has yet defaulted. However, in several cases, countries have rescheduled their total official debt, including FMS guaranteed loans, within the Paris Club mechanism. We consider the economic situation of a potential security assistance recipient very carefully. If appropriate, we will offer FMS guaranteed loans. If the recipient cannot afford increased debt, we must either provide all grant aid, a mixture of grant and loan funds, or withhold our assistance. There are times, however, when circumstances give us no alternative but to provide guaranteed loans. It is useful to recognize that changing economic conditions can have unpredicted effects on a recipient country's finances, for better or for worse, after the loans are made.

WORLD INDEBTEDNESS

Senator Hatfield: The international economic picture is far from encouraging. Is the Department considering any restructuring of the foreign assistance program to avoid future stresses on developing economies?

Secretary Shultz: At this point the answer is no, we are not considering any restructuring. We have taken considerable pains to come up with a balanced, flexible, integrated program which takes into account country circumstances. For that reason I hope that our requests, especially for concessional funds, will be accepted. In the past Congress has reduced grant funds while increasing loan funds. However, there is no need to fundamentally restructure the foreign assistance program simply to adjust the grant/loan mixture.

I recently appointed a Commission on Economic and Security Assistance. We expect the Commission to review the goals and objectives of all foreign assistance programs and to make whatever recommendations it deems appropriate. Members of Congress are included on the Commission as well as distinguished non-governmental persons. Whether the Commission's recommendations will include suggestions for restructuring remains to be seen.

IMF/DEBT AND FOREIGN POLICY

Senator Hatfield: Mr. Secretary, do you see any relationship between the need to increase the quota resources of the IMF to assist nations facing growing debt burdens and the strains placed on the economies of those very same nations by our use of guaranteed loans for military sales?

Secretary Shultz: Total FMS guaranteed loans outstanding total roughly $12.7 billion, a relatively small amount in comparison with the nearly $700 billion in outstanding LDC debt. In the specific case of Turkey, one of the larger FMS recipients and a nation facing debt service difficulties, debt service payments relating to FMS loan guarantees will total roughly $160 million in 1983 or roughly 8 percent of its more than $2 billion in total annual debt service payments. Moreover, in the absence of FMS guarantees many FMS recipients would be forced to contract debt on even more disadvantageous terms. The Administration endeavors to obtain FMS loan packages that are consistent with the debt situations of the recipient nations. I would not conclude from the evidence that the FMS guaranteed loan program has contributed in an appreciable way to the debt service problems of developing nations or that there is a link between FMS loans and the need to increase the resources of the IMF. Rather, it is imperative that Congress approve the recently recommended IMF quota increase to ensure the capacity of that institution to meet the heightened but temporary liquidity needs of many nations.

ARMS VS. INVESTMENT GOODS

Senator Hatfield: Are we shirking our moral responsibility as a nation in providing so much military assistance and in encouraging lesser developed countries to buy U.S. arms when we know that foreign exchange spent to buy arms, unlike that spent on investment goods, does not increase a country's capacity to earn foreign exchange in the future and thus to pay interest on and repay existing debts?

Secretary Shultz: It would be hard to choose between our responsibility to assist the needy of the world and our responsibility to help their nations defend their sovereignty and independence. We have always tried to do both. We need to do both. Without peace and political stability, economic growth and development will not take place. Poverty and economic instability beget aggression and political unrest. And because our own security and prosperity depend on those of other nations, we must respond to all of their concerns, not just those which are easiest.

BASIC HUMAN NEEDS CONCERNS

Senator Hatfield: Does the Department view the satisfaction of human needs as a goal of U.S. foreign assistance?

Secretary Shultz: The concerns collected under what's called basic human needs have traditionally been a part of U.S. economic foreign assistance. Not only do these concerns reflect the humanitarian desires of the American people but they also reflect Congressional and Administration concern that economic growth and development include all population groups.

Senator Hatfield: A primary goal?

Secretary Shultz: Yes, on an equal footing with other goals.

Senator Hatfield: Mr. Secretary, has the international community given any serious consideration to denying the weapons trade to lesser developed countries, unless their governments are willing to commit a certain percentage of their nation's resources to human needs-related exchange?

Secretary Shultz: As you recall, the Carter Administration made a concerted effort to achieve multilateral restraint on transfers of conventional arms. We found that both our allies and the Soviets had reasons why they could not agree to such multilateral restraints. The conditioning of arms transfers on a minimum commitment of resources to human needs does not take account of differences in circumstances. I would hesitate to deny the ability for self-defense to a friend or ally who fell just short of an externally-mandated standard. Conversely, I would be disappointed if a developing nation were to do only what was required of it in the way of meeting its citizens' needs.

EL SALVADOR

Senator Hatfield: I note that the FY'84 request of $86.3 million for military assistance to El Salvador is an increase of $60 million over FY'83. How do you justify such an increase? Is the implication that a solution to the civil war in El Salvador is envisioned through military means only?

Secretary Shultz: Our policy has never emphasized military assistance over economic assistance. In fact, over the past two years we have provided the Government of El Salvador with economic assistance twice the level of our military aid. We view both as being critical to helping Salvadorans guard their path to pluralism and more democratic institutions. The requested $110 million in military assistance for FY 83 will be used to upgrade the performance of the Salvadoran military by increasing training and expanding existing force levels. This enhanced security effort is designed to provide a shield for the military and government, to enable them to continue with social and economic reforms. It will also contribute to the democratization process by seeking to inculcate greater discipline and democratic values in the course of military training.

In the last two years, through our assistance, the Salvadoran Government has been able to provide land to 500,000 Salvadorans and to hold perhaps the first truly free and honest elections the country has ever witnessed. A democratic process has become rooted, and with further nurturing it will be able to withstand attacks by extremists of the right and left.

On the question of U.S. military assistance, Salvadoran Archbishop Rivera y Damas stated during his homily of March 20, "I would not be in favor of this aid if it were possible to prevent similar aid from reaching the government's opposition. In other words, I prefer a political rather than a military solution, and it is in this sense that I say that arms are unnecessary provided we achieve a political solution. But a unilateral suspension of aid would not solve the problem. In order to solve our problem, military aid would have to be suspended on both sides."

Senator Hatfield: If there is no change in the situation in El Salvador -- or, if the situation deteriorates -- at what point would the Department of State recommend alternatives to our present stalemated policy?

Secretary Shultz: First, let me say that our policy toward El Salvador is not stalemated. I and other officials of the Department of State have continued to underscore the considerable progress that has been achieved in the last two years.

The nascent democracy in El Salvador has proven to be both viable and dynamic. The Peace Commission just recently submitted its draft amnesty proposal to President Magana who in turn submitted it to the country's Constituent Assembly for ratification. The plan calls for the resettlement on government land and rehabilitation of guerrillas and followers willing to avail themselves of amnesty. The Salvadoran Central Elections Commission has affirmed the early date for elections and is currently consulting with neighboring democratic countries on the mechanisms to bring them about before the end of the year.

During his visit to El Salvador the Pope gave support to the Government's decision to hold early elections as one of the mechanisms that can bring about a lasting peace. Archbishop Rivera y Damas has offered full church support for the government's amnesty plan, including the possible use of churches as reception sites for guerrillas willing to avail themselves of amnesty. The GOES released thirty political prisoners in March; more are expected to be released once the draft amnesty plan is passed by the Constituent Assembly.

On March 3 the Constituent Assembly extended, by a signficant majority, the land reform until the end of the year. The extension was a true exercise in grass-roots democracy. Thousands of peasants peacefully assembled both outside the legislature building and in the Assembly galleries to make known their interest in extension.

Much remains to be done in El Salvador. Our policy is constantly under review, being adjusted as the process in El Salvador continues to evolve. However, we are talking about overcoming the effects of over 100 years of fraudulent elections and governments and an inequitable distribution of that country's wealth. Now more than ever, this process needs our patient support and understanding.

Senator Hatfield: Mr. Secretary, you very clearly know what approaches you do not want to pursue with regard to El Salvador. I'm referring specifically to your very strong repudiation of the two-track approach. What, then, are the conditions that you believe are necessary to resolve that conflict and how are those conditions to be reached?

Secretary Shultz: I believe that the President has made it clear that neither the Salvadorans nor this Administration favors unconditional negotiations which would lead to power-sharing by the guerrillas. To force this on the Salvadoran people would amount to a repudiation of the massively-supported elections in March of 1982. By supporting an arrangement whereby the guerrillas would share power with democratically-elected politicians who risked their lives to run in these elections, we would be contributing to a continual spiral of violence perpetrated by an armed minority. Power-sharing would legitimize the use of force in a country where violence is used all too frequently.

Our policy is to promote and protect El Salvador's infant democracy by providing economic assistance to help overcome the suffering caused by the fighting and recession and to provide enough military training and assistance to regain the initiative against the guerrillas. Our policy is also designed to foster a regional approach to peaceful solutions to the problems facing all Central Americans. Finally, peace will only come to Central America through a regional approach. There have been numerous regional proposals by Central American countries to meet and resolve common problems. We continue to support these efforts.

QUESTIONS SUBMITTED BY SENATOR INOUYE

LEBANON/GUARANTEE OF ISRAELI BORDER

Senator Inouye: Mr. Secretary, in his speech to the American Legion Convention last Tuesday, President Reagan said, "This Administration is prepared to take all necessary measures to guarantee the security of Israel's northern borders in the aftermath of the complete withdrawal of the Israeli army." How does the President propose to "guarantee" the security of Israel's norther border?

Secretary Shultz: The President's statement regarding "measures to guarantee the security of Israel's northern border" underscored continuing U.S. concern for Israeli security in the context of the negotiations to achieve withdrawal of all foreign forces from Lebanon. As the Administration has indicated on many occasions, the security of Israel's northern border is one of the principal goals which we believe these negotiations must attain.

Senator Inouye: Does he propose to station American troops on the border between Israel and Lebanon?

Secretary Shultz: The specific security arrangements for southern Lebanon are currently being negotiated by Lebanon and Israel. The U.S. is an active party to these negotiations. It would be premature to speculate on the outcome of these negotiations. Any additional deployment of U.S. troops would, of course, be undertaken after consultation with the Congress.

Senator Inouye: Has there been any response to this proposed "guarantee" from the Government of Israel?

Secretary Shultz: The Government of Israel, perhaps not understanding the context of the President's statement, reacted negatively to this statement, noting that only Israel guarantees its own security.

Senator Inouye: Would the President make the same guarantee for Israel's eastern border, if that became necessary to implement his September 1 proposal linking a self-governing Palestinian authority of the West Bank with Jordan?

Secretary Shultz: We anticipate that, consistent with the Camp David Framework, adequate security arrangements can be devised in the final status negotiations involving Israel and Jordan representatives joined by elected representatives of the inhabitants of the West Bank and Gaza.

LEBANON/PEACEKEEPING FORCE

Senator Inouye: Mr. Secretary, it now appears possible that Israel and Syria may soon withdraw their troops from Lebanon, perhaps as early as the end of this week. Do you agree with Secretary Weinberger that the Multinational peacekeeping force will have to be expanded?

Secretary Shultz: The final decision whether to expand the MNF is directly tied to the outcome of the current negotiations between the Lebanese and Israeli governments, and thus it would be premature to make a conclusion on this at this time.

Senator Inouye: Will the Administration seek Congressional approval before increasing the U.S. military presence in Lebanon?

Secretary Shultz: It has been the Administration's policy to keep the Congress fully informed of developments concerning the U.S. forces in Lebanon. We will continue to do so on all developments, and would clearly consult with respect to any decision on increasing the size of the U.S. presence.

Senator Inouye: I understand that the Department of Defense is becoming concerned about the rising cost of maintaining U.S. troops in Lebanon. Do you have any intention of meeting these costs from foreign assistance funding?

Secretary Shultz: The costs of maintaining our forces in Lebanon are met from normal Department of Defense funds.

Senator Inouye: Is this, in part, the reason the Administration is seeking $25 million "drawdown" authority for Peacekeeping Operations?

Secretary Shultz: Our "drawdown" request has nothing to do with Lebanon. It is an effort to be prepared with the proper authority to respond rapidly to emergency peacekeeping situations in which a rapid drawdown of U.S. assets is deemed appropriate.

IMF/DEBT AND FOREIGN POLICY

Senator Inouye: Mr. Secretary, Hobart Rowan's column in yesterday's Washington Post gave you considerable credit for revising the Administration's approach to international economic issues -- particularly with regard to the IMF. Will you share with the Committee your views on what you have called the "debt bomb"?

Secretary Shultz: In my recent testimony I spoke of a so called "debt bomb" by which I referred to the concern expressed by many commentators and analysts regarding the implications of a hypothetical widespread default by the LDCs on their $700 billion in debt. Let me hasten to say, at the outset, that I believe the chances of such an event are minuscule. Certainly implications of such an event would be catastrophic, not only for the financial system but for U.S. and Western political interests as well. Accordingly, in my testimony I outlined the steps the U.S. and other creditors must be prepared to take to ensure that the odds of such a catastrophe do not increase. These steps include prompt ratification of an IMF quota increase, responsible lending activities to LDCs on the part of the commercial banks, the avoidance of international trade restraints, and multilateral cooperation such as exhibited in the bridge financing provided to Mexico and Brazil to ensure adequate support for debtors who undertake appropriate economic adjustment programs.

Senator Inouye: How important is an enlarged IMF to the conduct of American foreign policy?

Secretary Shultz: An increase in IMF quotas is a key element in America's foreign economic and political interests. Unless properly managed, the global debt situation could seriously undermine the stability of the International Financial System with consequent effects on international trade and the recovery and growth of the American economy. In addition, the debt problems are causing severe economic difficulties for many important LDCs. Failure to address these problems would cause additional political as well as economic instability throughout the world.

At the moment I believe the situation is being well managed. With the cooperation of other creditor nations, the commercial banks, the debtor nations themselves and multilateral organizations such as the IMF, we believe that the world economy can be put back on a course of sustained economic growth which is vital to the ultimate solution of these liquidity problems.

The problems however have posed a considerable strain on the resources of the IMF, a key element in the recovery process. The increase in IMF quotas is, therefore, a necessary ingredient to our current strategy of dealing with the global debt situation and to the conduct of American foreign policy.

Senator Inouye: Mr. Rowan made reference to testimony by Under Secretary of Commerce Lionel Olmer which suggested that the Administration has already begun a study of "new and dramatic ways" of dealing with the global debt crisis. What do you know about this study? Is the Department of State participating in it? Who is actually conducting the study?

Secretary Shultz: An interagency group chaired by Treasury with the participation of the Department of State and Commerce, as well as the Council of Economic Advisors among others, is currently studying alternative proposals to deal with the problems of global debt. No conclusions have yet been reached but the group is carefully examining, with an open mind, a wide range of proposals originating from both within and without the Administration.

Secretary Inouye: Drawing on your experience and knowledge of international economics, do you think "new and dramatic ways" of dealing with this issue are called for?

Secretary Shultz: At the moment I am satisfied with our current procedures for dealing with the debt situation. Most of the major debtor countries have now undergone successful debt rescheduling and are participating in IMF adjustment programs. The commercial banks are cooperating by putting necessary new money into many of these countries and the IMF Interim Committee has agreed to provide the extra needed resources through quota increases to the IMF. In addition, the Western industrialized nations have agreed to provide additional funds for the General Arrangements to Borrow in order to ensure adequate resources to deal with any systemic threat to world financial markets. We realize, however, that these problems are difficult, and it is therefore important to continue careful examination and analysis of alternative proposals.

REDUCED FUNDING OF UNICEF

Senator Inouye: Mr. Secretary, I'm sure you know how difficult it is to garner support for foreign assistance. This is particularly true when programs favored by traditional supporters of foreign assistance are cut. How, then, can you justify reductions in the United Nations Children's Fund, or the UN Development Program, or AID's health assistance programs? With a $1.3 billion increase in military assistance, surely these cuts could not have been made for budgetary reasons?

Secretary Shultz: The FY'84 request of $190 million for voluntary contributions to the UN and OAS is a $16.7 million increase over the Administration's FY'83 request including a $13 million increase for UNDP and a $1 million increase for UNICEF.

We remain staunch supporters of these organizations; our belief is as firm as ever that the programs sponsored by these organizations serve important U.S. political, economic, and humanitarian interests in the developing world.

We believe the FY'84 request level is sufficient to assure our continued interests and leadership in UNDP and UNICEF councils. The request level reflects our effort to strike a balance between the need for budgetary restraint and advancement of our interests in these multilateral fora.

Decreased funding for AID health programs is largely due to the adoption of a new program mix de-emphasizing high-cost commodities and construction and emphasizing low-cost health interventions. In addition, the increase in the FY'83 request over what originally had been planned allowed for accelerated funding of some projects which had been planned for FY'84, including the requirement for FY'84 health funds.

ZIMBABWE/CONTINUING RESOLUTION ALLOCATIONS/ PRSSURE FOR SUPPLEMENTAL

Senator Inouye: Mr. Secretary, the original fiscal year 1983 request for assistance to Zimbabwe under the Economic Support Fund was $75 million. Was this amount in support of the so-called ZIMCORD Pledge? What was the nature of the pledge? Can you refresh our memories regarding the context in which the ZIMCORD pledge was made?

Secretary Shultz: The March 1981 Zimbabwe Conference on Reconstruction and Development (ZIMCORD) was organized by the Government of Zimbabwe to obtain support for its massive reconstruction and development program following the devastating civil war. In his opening statement Prime Minister Mugabe appealed to the 45 donor countries and other specialized agencies and agencies of the United Nations who attended the conference to play a full part in supporting Zimbabwe's development efforts. The United States pledged, subject to the approval of Congress, $75 million in ESF funds and indicated its willingness to provide similar amounts in fiscal years 1983 and 1984.

Senator Inouye: If the ZIMCORD pledge called for three installments of $75 million in assistance from the United States, can you explain why the Administration reduced ESF funding to Zimbabwe under the Continuing Resolution to $60 million? How will you satisfy the ZIMCORD pledge, if Congress does not act on the supplemental request for fiscal year 1983?

Secretary Shultz: Despite our ZIMCORD pledge, we could not then nor can we now guarantee that consistent funding levels will be available in any precise fiscal year. Other African countries with problems as severe as or more severe than Zimbabwe's were also cut below planned or promised 1983 ESF fund levels under the continuing resolution. We hope these cuts can be restored. If we are unable to restore the $15 million in the 1983 supplemental we would hope to do so at some point during the remainder of the pledge period, i.e., before the end of fiscal year 1984.

ALLOCATIONS UNDER THE CONTINUING RESOLUTION

Senator Inouye: Mr. Secretary, a number of my colleagues have indicated their belief that the Administration has used the authority of the Continuing Resolution to fully fund programs it favors while reducing funding for programs favored by the Congress. The Administration has done this, my colleagues say, to pressure the Congress to approve the requested fiscal year 1983 Supplemental. How do you justify the Department of State's allocation of funding under the Continuing Resolution?

Secretary Shultz: The FY'83 Continuing Resolution mandated an 11 percent reduction in security assistance below the level requested. These cuts were not made uniformly across the various security assistance programs. Equally as important, Congressional earmarks magnified the effect of the cuts on those country programs that were not earmarked. Our request for MAP funds was cut by 48 percent (from $557 to $290 million). With 59 percent of the appropriation earmarked ($195.5 million), the remaining $97.5 million must be spread over programs originally budgeted for $364.5 million. The effective cut for these countries is thus 73 percent. The same happens to ESF and to FMS guarantees, where the earmarks account for 58 and 81 percent respectively. For the unearmarked countries, the result of the 8 percent cut in ESF is effectively 17 percent, and the 16 percent cut in FMS guarantee authority is actually a 50 percent reduction.

Under these severe constraints, we have tried to fashion a curtailed security assistance program which meets the most urgent of our foreign policy and national security concerns while at the same time preserving some modicum of continuity in other areas. The prospect for overall success in meeting our worldwide interests, however, is contingent upon passage of the Supplemental request.

ZIMBABWE: NORTH KOREAN TRAINEES

Senator Inouye: Mr. Secretary, to return to the subject of assistance to Zimbabwe, what can you tell the Committee about recent killings in the Southwestern part of the country? Did this outbreak of violence end any hope of reconciliation between the tribes of Zimbabwe?

Secretary Shultz: The current military operation in Matabeleland reflects the Government's desire to rid the country of violence and to attempt to bring an end to dissident activity which started in the area approximately one year ago. Although this action has made an attempt at reconciliation more difficult, in our view there is still time for the healing process to begin. We are hopeful that the Government and other involved parties will take appropriate steps to bring an end to the current unrest.

Senator Inouye: The Washington Post has reported that most of the killings were done by the North Korean-trained Fifth Brigade. Is this accurate?

Secretary Shultz: Information available to us indicates that the Fifth Brigade is largely responsible for the killings.

Senator Inouye: What is the extent of North Korean influence in Zimbabwe?

Secretary Shultz: The Government of Zimbabwe has good relations with North Korea owing to the support Prime Minister Mugabe's Zimbabwe African Peoples' Union received from the North Koreans during the civil war. The North Koreans trained and equipped the Fifth Brigade following Zimbabwe's independence and the integration of the former guerrilla armies with former Rhodesian Army into the Zimbabwe National Army. Prime Minister Mugabe recently announced that the training had been completed.

Senator Inouye: Does it make sense to provide economic assistance to Zimbabwe under these circumstances?

Secretary Shultz: Despite the presence of the North Koreans, whose role has been confined to the Fifth Brigade, the British continue to play the overwhelmingly predominant role in training and equipping the Zimbabwe National Army. The preponderance of Zimbabwe's economic assistance also continues to come from the West. To condition continued economic assistance to Zimbabwe upon that country's willingness to reject any assistance from other sources would not be sound policy with a non-aligned state and would work directly counter to U.S. basic interests in southern Africa.

We deeply regret the loss of life that has occurred through the actions of the Zimbabwe Army and the Government of Zimbabwe is fully aware of our concerns. At the same time, however, it remains important to the United States to build a strong relationship with Zimbabwe which is a pivotal state in the important and volatile southern Africa region, and still a major example of fruitful multi-racial cooperation under majority rule. We intend to remain faithful to our commitments to aid Zimbabwe.

This aid is essential to Zimbabwe in meeting the economic problems of its early years of independence. It is aid which is essential to all Zimbabweans if the country is to maintain economic stability and opportunity for all its communities.

Senator Inouye: Who will benefit from the proposed $200,000 U.S. military training program for Zimbabwe? Will officers and men of the Fifth Brigade be excluded from our training program?

Secretary Shultz: Training is available under the International Military Education and Training program to qualified Zimbabwean military personnel selected by the Zimbabwean Ministry of Defense. It would be abnormal for the U.S. Government to limit the selection process by excluding persons qualified under the standard criteria. The IMET program is specifically tailored to increase foreign participants' awareness of basic issues of internationally recognized human rights. Moreover, we believe that one of the principal benefits of the IMET program is the exposure it provides all foreign trainees to American standards of military conduct and our attitude toward such actions as the wanton killing of civilians. When viewed from this perspective, training in the U.S. should have a doubly salutary effect on any officers or NCOs of the Fifth Brigade selected by the Government of Zimbabwe for the IMET program.

BLANK CHECKS/SUPPLEMENTAL/PAKISTAN

Senator Inouye: Mr. Secretary, the concluding portion of your statement traces the outlines of a number of foreign policy problems which might arise, if the Congress does not approve the Administration's request for supplemental funding of security assistance programs. The clear implication is that Congress is at fault for not appropriating sufficient funds to meet commitments made by the Administration.

It could be argued, however, that the Administration has issued a number of blank checks which the Congress now refuses to pay on demand. For example, you note that supplemental appropriations are needed to enable Pakistan to make payments on weapons systems already contracted. What responsibility does the United States have to meet the payments on these contracts?

Secretary Shultz: The Executive Branch, after full consultation with Congress, promised to seek to provide a certain level of financing for these payments. Indeed, this promise was one of the bases for the revitalization of our bilateral security relationship. Pakistan understands, however, that in the last analysis, it is responsible for meeting payments on these contracts.

Senator Inouye: Does the Department believe Pakistan could meet future repayment schedules in the absence of further U.S. assistance?

Secretary Shultz: We believe that Pakistan could perhaps meet future payments through its own resources and other foreign assistance, but with difficulty. Funding from the U.S. as established in the six-year program adopted in 1981 has been factored into Pakistani planning, and the failure to provide funding at those levels would create significant problems for Pakistan. As a result, some payments might have to be rescheduled, and some planned purchases might have to be cancelled, particularly as we move into later years of our six-year sales and assistance program.

Senator Inouye: Has the Congress authorized cash-flow financing for Pakistan?

Secretary Shultz: Pakistan is not a cash-flow authorized country, however, with full consultation with Congress, the Administration committed itself to provide Pakistan a $3.2 billion, six-year assistance program divided equally between economic support funds and foreign military sales credits.

U.S.-PAKISTAN COMMITMENTS

Senator Inouye: Mr. Secretary, you note the importance of providing supplemental funding to enable the Administration to demonstrate U.S. reliability. In your view is this "reliability" important because the U.S. and Pakistan share a common concern for security?

Secretary Shultz: The foundation of our reinvigorated security relationship with Pakistan is the significant degree of congruity in our regional strategic perceptions. Both the U.S. and Pakistan agree on the need for a relaxation in regional tensions, including removal of the Soviet presence in Afghanistan, so that there can be greater political stability and economic development in the area. As a result of that shared perspective, and having concluded that a reinvigorated U.S.-Pakistan security relationship would contribute to U.S. objectives in the region, we agreed to the six-year $3.2 billion program of economic and security assistance. Given the earlier volatility of U.S.-Pakistan relations, it is equally important that we demonstrate the reliability of our relationship with Pakistan.

Senator Inouye: So, the U.S. response to this common concern is manifested in our proposed $3.2 billion program of assistance to Pakistan. Is that correct?

Secretary Shultz: Yes. Our commitment to Pakistan's security is given both real and symbolic shape through the existence of our six-year program of security and economic assistance and through our willingness to contribute to Pakistan's military modernization program.

Senator Inouye: What form does the Pakistani response take? Has Pakistan agreed to provide the U.S. bases or military facilities in Pakistan?

Secretary Shultz: The most immediate form in which Pakistan has responded is in its courageous stance in opposition to the Soviet invasion of Afghanistan. Faced with the Soviet presence across their border in Afghanistan, the Pakistanis have not succumbed to pressures to accept the new status quo. Instead, they have consistently led the international effort to condemn the Soviet presence in Afghanistan while also contributing to the search for a peaceful resolution of this three year old crisis. Moreover, the Pakistanis have provided refuge to nearly three million Afghans fleeing the fighting in Afghanistan. As a frontline state resisting Soviet expansionism, Pakistan has incurred additional security responsibilities which our assistance program is designed to help them meet.

Pakistan has also played a moderate, constructive role in important international fora, including the United Nations, the Non-aligned Movement, and the Islamic Conference, which contributes to our mutual goal of enhancing the prospects for regional peace and stability.

We have not sought bases or military facilities in Pakistan.

Senator Inouye: Will we be able to pre-position supplies in Pakistan for the Rapid Deployment Force?

Secretary Shultz: We have not sought to pre-position supplies in Pakistan for the Rapid Deployment Force.

FOREIGN ASSISTANCE/COOPERATION/STABILITY

Senator Inouye: Mr. Secretary, you have quite correctly noted that, "while we may wish to build up a rapid deployment force, we will be unable to deploy it without Third World friends who will allow us to use their facilities." Do you believe foreign assistance is a useful means for securing the cooperation of countries in the Third World?

Secretary Shultz: Foreign assistance is an important and useful tool for creating the relationships which allow us to work cooperatively with other countries to attain shared goals. Our foreign assistance responds to the legitimate concerns and needs of others; this helps them to be more responsive to our concerns. We're not buying their cooperation. These relationships enhance our prosperity and national security, as well as that of the recipient.

HELPING KENYA, THE SUDAN, AND EGYPT DEAL WITH ECONOMIC DIFFICULTIES

Senator Inouye: Kenya, the Sudan, Egypt -- these are countries whose cooperation is helpful to our efforts to sustain access to the Persian Gulf. Each of these countries is, to a varying degree, facing a debt crisis. What do you think the United States should do to help these countries face their economic difficulties?

Secretary Shultz: We are encouraging the Kenyans to make macroeconomic policy reforms which will correct serious structural and institutional problems which now exist in that economy. In the short term Kenya needs assistance to meet its critical balance-of-payments problems. We are attempting to do this through accelerated disbursement of FY'83 ESF funds and by converting some project assistance to balance-of-payments support.

In the case of Sudan, years of economic mismanagement, ambitious investments and deteriorating terms of trade have left a horrendous debt burden and an economy plagued with serious structural imbalance. Sudan is now responding to this situation with a program of austerity measures and economic reforms negotiated with the IMF. Foreign aid enables Sudan to finance imports needed to meet basic consumer demands and maintain the productive capacity of the economy. As a friend, we are working with Sudan to help it achieve economic growth and stability without the political instability which can result from imposition of needed austerity measures. Through the level of our assistance and through diplomatic support, we have taken a leading role in organizing the international aid and debt relief Sudan needs to implement its reform program.

The Administration feels that our economic assistance is a very important factor in helping Egypt face its economic difficulties. The Administration has requested $750 million in Economic Support Fund assistance and $250 million in PL-480 food aid for FY'84. Specifically, as noted by President Reagan following his discussions with President Mubarak earlier this year, we wish to support the priorities of the new Egyptian Five-Year Plan with emphasis on increasing agricultural and industrial productivity and the rehabilitation and expansion of the water and related disposal systems in Egypt's major urban centers. We will work together to find ways and means for rapidly disbursing the assistance, which will help meet Egypt's foreign exchange needs for its priority infrastructure and balance of payments goals.

POLITICAL STABILITY

Senator Inouye: You have said, "The Soviet Union and its allies are able to feed on political instability like viruses on a host." How would you assess the political stability of Kenya, the Sudan, and Egypt?

Secretary Shultz: Kenya is basically stable. The coup attempt of August 1982 was quickly suppressed by the army. There is no evidence of broad support within Kenya, including the military, for a change from the constitutionally elected government which has existed since the country's independence. Nevertheless, we believe that substantial economic and political reforms are necessary to assure Kenya's future stability. President Moi announced a number of important reforms shortly after the coup attempt and has begun to implement them.

Sudan is also basically a stable country, but one in which there are many forces which could result in instability. The 17-year civil war between the Arabized north and the African south attests to the strain imposed by ethnic diversity. One of President Nimeiri's greatest achievements was the peaceful settlement of the civil war in 1972. The greatest threat to stability now is the faltering economy which threatens both the supply of goods and jobs. Austerity and other economic reform measures are essential to averting major economic problems but such measures themselves tend to be unpopular because they increase the cost of living. Foreign aid helps cushion the impact of reforms and thus makes the Sudanese Government much more willing to undertake the needed measures.

The Egyptian Government under President Mubarak is stable. Except for some relatively minor disturbances following the assassination of President Sadat, there have been no internal challenges to the President Mubarak's Government, which draws support from a wide spectrum of Egyptian society.

FMS/DEBT BURDEN/INCREASING DEFAULTS

Senator Inouye: Mr. Secretary, If I can pursue a question I asked earlier....

OMB budget projections show that the debt burden being carried by developing countries will cause an increasing rate of defaults on FMS loans over the next several years. These defaults on loans guaranteed by the U.S. Government will exhaust the FMS guarantee reserve fund by the end of fiscal year 1987. That means this Administration knows that developing countries will be unable to repay loans proposed for fiscal year 1984 -- their debt burden will simply be too heavy.

Consequently, I must ask, is it not possible -- indeed, probable -- that U.S. FMS loans will contribute to economic instability in many Third World countries?

Secretary Shultz: It is always possible. We recognize the difficulty some developing nations will have in servicing a large debt burden, but FMS loans aren't the problem. Our FMS loans constitute roughly two percent of total LDC debt worldwide, and only fifteen percent of total outstanding debt to the U.S. Government.

I want to make two further points. Our security assistance helps the recipient nations defend themselves. Without security, many of these countries would be unable to maintain any economic or political stability. Second, the governments involved recognize the necessity for these funds, and if they can't get U.S. Government-guaranteed FMS loans, they'll be forced to try to get commercial credits which will be much more costly, if indeed they are available.

Nevertheless, we are sensitive to the debt situation. We have requested increased grant MAP for a number of countries in FY'84 to avoid exacerbating debt service burdens while meeting defense needs.

Senator Inouye: Why is the Administration continuing the pretense that these countries can repay FMS loans?

Secretary Shultz: We've recognized the problem for a long time. We've asked the Congress for more grant authority. We've held off on giving loan guarantees to countries which can't afford them. But when the need must be met and grant funds are not available, we have to consider, in consultation with the recipient, the provision of high interest loans. We do not do this lightly; often, however, there are no other alternatives.

Senator Inouye: Is OMB wrong? That is, does the State Department believe the FMS Guarantee Reserve Fund will not be depleted over the next 4-5 years?

Secretary Shultz: If the Fund is drawn down at the present rate, it will be depleted by 1987. That's why we're considering proposals to the Congress to replenish the Fund in FY'85.

SUBCOMMITTEE RECESS

Senator **Kasten**. Mr. Secretary, thank you for your testimony here today. It has been very helpful, and I look forward to working with you.

Secretary **Shultz**. Thank you.

[Whereupon, at 12:20 p.m., Monday, February 28, the subcommittee was recessed, to reconvene at the call of the Chair.]

FOREIGN ASSISTANCE AND RELATED PROGRAMS APPROPRIATIONS FOR FISCAL YEAR 1984

TUESDAY, MARCH 1, 1983

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, D.C.

The subcommittee met at 10 a.m., in room S-126, the Capitol, Hon. Robert W. Kasten, Jr. (chairman), presiding.

Present: Senators Kasten and Leahy.

DEPARTMENT OF STATE

SECURITY ASSISTANCE, SCIENCE AND TECHNOLOGY

STATEMENT OF WILLIAM SCHNEIDER, JR., UNDER SECRETARY FOR SECURITY ASSISTANCE, SCIENCE AND TECHNOLOGY, DEPARTMENT OF STATE

ACCOMPANIED BY LT. GEN. PHILIP C. GAST, DIRECTOR, DEFENSE SECURITY ASSISTANCE AGENCY

INTRODUCTION OF WITNESSES

Senator KASTEN. The subcommittee will come to order.

This morning our schedule includes, first, William Schneider, who will present testimony in support of the administration's international security assistance program. Then we will hear from Dominick DiCarlo, who will present testimony in support of the International Narcotics Control Budget. Then, testimony from James Purcell in support of the budget request for migration and refugee assistance. Then, last, Ambassador Robert Sayre, who will present testimony in support of the administration's antiterrorism program.

Because of the busy schedule, I am going to ask that all the witnesses be as brief as possible so that we can spend as much time as possible on questions, knowing that the entire written statement will be submitted for the record.

So, without further delay, I would like to call on Bill Schneider to make his presentation. Let me say that it has been a pleasure working with you, and I look forward to one more successful year.

Mr. Schneider.

Mr. SCHNEIDER. Thank you very much, Mr. Chairman.

It is a privilege to appear before this committee today. As one who has spent some portion of his career working in the appropriations process, it is especially an honor to have such an opportunity.

I have a statement of encyclopedic length which, at your suggestion, I would submit for the record. I have a condensed version which in both cases represents a coordinated view of the State and Defense Departments, and would request that the statement be put in the record.

Following my remarks, which will be condensed, General Gast has a few additional remarks covering subjects not directly addressed in my condensed version.

VALUE OF FOREIGN ASSISTANCE PROGRAM

U.S. foreign assistance programs constitute an integral part of this Nation's response to international political and economic developments throughout the world. Resources provide us with the means to exercise leadership internationally and enable us to help developing countries address their most pressing problems.

Secretary Shultz in his testimony yesterday reviewed our overall foreign assistance program in the context of our economic and security ties to the developing world. The Secretary also discussed in detail our interest in forging a bipartisan coalition to support additional resources for El Salvador. We will be consulting intensely with the Congress, and I look forward to discussing our aims and objectives with you and other members of this committee.

GLOBAL U.S. SECURITY PROGRAM

Today I propose to discuss in detail the global U.S. security program and the importance it plays in our foreign policy.

We have developed an integrated foreign assistance program in which development and security assistance combine to meet our economic and national security objectives as well as those of other countries who share our objectives. Security assistance is but one aspect of the whole. It is important to keep in mind that assistance to promote economic growth and development and security assistance are mutually reinforcing programs that cannot function independently.

The United States has multiple interests involving the developing world. On the economic level, for example, about 40 percent of the total U.S. exports are to less-developed countries. U.S. industry depends on exports of primary commodities, minerals, and petroleum. Economic progress in the developing countries and recovery in the industrialized nations cannot occur independent of regional security and stability.

DEFENSE PLANNING AND SECURITY ASSISTANCE

U.S. defense planning and security assistance are closely linked. The United States alone does not and cannot maintain a force structure and capabilities sufficient to defend the free world. We depend upon allies and factor their capabilities into our planning.

Security assistance is cost effective. It would cost $60,000 to equip and maintain one United States soldier in Turkey, should that be necessary. It costs only $9,000 for a single Turkish soldier.

Security assistance enables us to maintain cooperative relationships necessary for our strategic planning. For example, the Rapid Deployment Force cannot perform its mission in a Southwest Asian contingency unless it can move into the area promptly, equipped to fight as necessary. This requires en route access and transit rights, as well as prepositioned equipment and supplies in the region. We cannot expect other nations to cooperate with us unless we are equally responsive to their legitimate needs.

Security assistance helps to maintain a strong defense industrial base in the United States. Virtually all security assistance resources are spent in the United States, on U.S. equipment and services. Coordinating U.S. and foreign procurement allows both buyers to reap the benefits of consolidated planning and economies of scale. Cutting back on foreign sales by the United States will only serve to channel these sales to others and raise the cost of our own purchases.

Finally, allies and friends who are able to deter and defend against local threats provide the President time and choices in a crisis situation. The President is not faced with a sudden choice of either intervening directly with U.S. forces at the request of an ally or acquiescing to aggression.

ECONOMIC SUPPORT FUND

One aspect of security assistance that bears special mention is the Economic Support Fund [ESF]. ESF is not another form of credits for military purchases. We use ESF to address economic problems in a way that complements and enhances both the military and development assistance we provide.

The 1983 continuing resolution under which we are operating does not provide adequate funds to achieve necessary national security objectives. Our problems are accentuated further by extensive earmarking in existing authorization legislation and in the continuing resolution itself. We require additional resources.

EMERGENCY LEBANON ASSISTANCE

We are seeking $251 million to help restore peace and stability in war-torn Lebanon. This is a one-time, special reconstruction package. In fiscal 1984 and beyond, we expect to revert to traditional levels of assistance. The supplemental request includes:

First, $150 million in ESF grants. These funds, together with funds from other donors, will help the Lebanese Government rebuild its shattered economic infrastructure.

One hundred million dollars in FMS guaranteed loans is the second part of this supplemental. This will allow the Lebanese Armed Forces to purchase equipment necessary to assume full responsibilty for security in Lebanon, a necessary condition for the withdrawal of all foreign troops.

The third component is a $1 million international military education and training program. This will send U.S. training teams to

Lebanon and bring Lebanese military officers and enlisted troops to the United States for specialized training.

I am certain that members of this subcommittee recognize that very important national interests are at stake in ending hostilities and promoting the withdrawal of all foreign forces in a manner that promotes lasting peace and stability.

SUPPLEMENTAL FISCAL YEAR 1983 REQUEST

Our fiscal year 1983 supplemental request also requires urgent attention. In these times of economic constraints and domestic belt tightening, it takes a really serious situation to justify more foreign assistance. A request in this case is not only justified, but in the administration's view we have no responsible alternative.

The continuing resolution is set at $961 million, or 11 percent below the amount we requested in security assistance in fiscal 1983. This means reductions of 48 percent in the Military Assistance program [MAP], 17 percent in the International Military Education and Traning program [IMET], 16 percent in Foreign Military Sales [FMS], guaranteed loans and 8 percent in the Economic Support Fund.

More than half of the MAP, ESF, and the FMS loan guarantees are earmarked. This magnifies the reductions to be supported by the remaining unearmarked countries. For instance, the effective cut for these unearmarked countries averages nearly 70 percent in MAP and 50 percent in FMS. We cannot carry out an effective security assistance program with such extensive reductions. We face unacceptable choices as to which critical interests to fulfill and which to sacrifice.

We do not seek a total restoration of all differences between our original 1983 request and the continuing resolution level. We are requesting $167 million in additional MAP appropriations, $144 million more in ESF appropriations, and $425 million in off-budget FMS guaranteed loans.

Major MAP recipients will be: Sudan, $50 million; Tunisia, $30 million; Thailand, $16 million; and Kenya, $12.5 million. As I noted, $50 million in forgiven FMS credit is earmarked in authorization legislation for Sudan, yet no funds were appropriated.

Major ESF recipients are Turkey, Sudan, Zimbabwe, the Dominican Republic, and Cyprus.

The off-budget guaranteed loan request of $425 million will support programs in Korea, Pakistan, Turkey, Tunisia, Jordan, and Indonesia that are keyed to specific purchases of needed defense weapons. Several smaller country programs require funding to prevent them from being eliminated altogether.

ADMINISTRATION'S FISCAL YEAR 1984 REQUEST

Now, let me move on to what would normally have been the only subject of my testimony today, the fiscal 1984 security assistance authorization and appropriation request.

We are requesting total security assistance programs of $9.2 billion, requiring $4.8 billion in new fiscal 1984 budget authority. This program total represents a modest 4.5-percent increase over our revised request for fiscal 1983.

By program, we are seeking an appropriation of $747 million in MAP to provide for increased military inputs at more concessional rates, a virtual straightlining of ESF to $2.9 million, $56 million in International Military Education and Training, and $4.4 million in off-budget FMS guaranteed loans. We are requesting $1 billion in forgiven FMS direct credits for Israel and Egypt and a peacekeeping operations contribution of $46 million for the Multinational Force and Observers in the Sinai and the U.N. Forces in Cyprus.

I have recently returned from accompanying the Secretary on a trip to East Asia, and I would like to discuss that portion of the world first. For the Pacific, we are requesting $506 million for 10 countries, about 5.5 percent of the total security assistance request. The bulk of funding here goes to countries with which we have mutual security agreements. More than 85 percent goes to three countries: Korea, $230 million to purchase the aircraft, armor, and artillery necessary to offset the huge quantitative edge held by North Korea; Thailand, $106 million for defensive equipment to defend Thailand against the 180,000 Soviet-backed Vietnamese soldiers across their eastern border, a force which recently penetrated that border, I might add; and the Philippines, to fulfill the final year of the 1979 base agreements pledge.

U.S. OBJECTIVES IN MIDDLE EAST

A fundamental U.S. objective, requiring the largest percentage of funds, is to further the Middle East peace process. Nowhere is the need for consistency, reliability, and balance in U.S. foreign policy more evident than in the Middle East. United States assistance programs to Israel and Egypt reflect our best appraisal of their real needs. Our programs are designed to give these nations the confidence to continue on the path toward peace begun at Camp David. Lebanon and Jordan are also critical to the peace and security of the Middle East. I spoke earlier about Lebanon. Our continued support for Jordan increases its ability to remain a viable and moderate actor in the region and encourages it to assume an active role in the peace process. FMS loans would go directly to improve Jordan's armor, artillery, and airlift capability. For fiscal 1984 we plan to devote about 51 percent of our total security assistance program to the Middle East peace effort.

U.S. ASSISTANCE IN EUROPE

In Europe, our assistance will facilitate needed modernization of NATO's southern flank and support our continued access to important bases, as well as indirectly support our Southwest Asian strategy. Portugal and Spain hold a strategic position along the principal lines of access from Europe to the Middle East and Southwest Asia. Basing facilities in Portugal are key to NATO reinforcement, antisubmarine warfare operations and possible out-of-area contingencies as well. The fiscal 1984 Foreign Military Sales and MAP request of $105 million will help provide a second squadron of A-7P aircraft, the startup of an antisubmarine warfare frigate program, and increase P-3 maritime surveillance aircraft and C-130 airlift capability. Spain's decision to join NATO is a historic milestone on the road to that nation's full reentry into the West European community. Our $400 million FMS request serves to solidify progress in this direction. Our defense cooperation agreement with Turkey undertakes to assist the Turkish effort to modernize their dangerously obsolescent military inventory. We are requesting $755 million in FMS and MAP to help Turkey purchase a wide variety of equipment, including replacements for its obsolete fighter aircraft and equipment for its ground forces in eastern Turkey. These forces face a modern Soviet force which has grown over the years in both manpower and modern equipment. These forces constitute a substantial new factor in the strategic balance in the Trans-Caucasus and the Southwest Asian land mass. We intend to commit $1.79 million in security assistance to the southern tier states of Spain, Portugal, Greece, Turkey, and Cyprus.

Southwest Asia remains the critical source of energy for the free world. Most of these countries face severe economic problems with potential subversion or regional threats, in many cases supported by the Soviets or their proxies. Our 5-year program of military modernization and economic assistance will assist Pakistan to meet the Soviet threat from Afghanistan, and facilitate economic development essential to internal stability. A Pakistan more confident of its security has less need and motivation to develop nuclear explosives. Sudan, Morocco, and Tunisia all face threats of subversion or aggression emanating from or supported by Libya. These countries have difficult economic problems. Grant U.S. assistance is needed to enhance military preparedness without adding to already excessive economic burdens. In Oman, Kenya, and Somalia we seek to encourage economic self-reliance and the development of defense capabilities consistent with economic realities. Countries like Oman, situated on the strategic Strait of Hormuz, count as key features in our own defense planning for the region. We plan to commit $1.1 million in security assistance for 12 countries whose cooperation is essential to our Southwest Asian policy.

CARIBBEAN BASIN CHALLENGE

We face a major challenge in the Caribbean basin, where Cuba has sought to exploit socioeconomic problems and military vulnerabilities. The 1982 CBI supplemental was never intended to cure all problems. We must continue to provide resources, until increased investment, a strengthened private sector and expanded export markets enable these countries to achieve more economic self-sufficiency. We must maintain help with sufficient military assistance to meet continuing threats to peace in the region. El Salvador was the subject of substantial discussion yesterday. Honduras faces a severe economic decline and a large military buildup in neighboring Nicaragua. Costa Rica's rapidly deteriorating economy will require substantial assistance while fundamental reforms are effected. Jamaica will continue to need substantial assistance in order to restore the vitality of its private sector. Other countries in the region, including Guatemala and the Dominican Republic, also require economic assistance as they address the economic and social problems too long ignored. Under the security assistance rubric, we propose to devote about $558 million to CBI countries in regional programs.

We also propose in fiscal 1984, in addition to these areas of primary strategic concern to the United States, to provide security assistance to a number of other countries in troubled parts of the world. These include southern Africa where we are seeking to advance the peace process, western Africa where financial difficulties open up the way for exploitation by Libya, and South America where the President's recent trip underscored our commitment to seek solutions to the key problems of our southern neighbors.

Secretary Shultz transmitted our fiscal 1984 legislative proposals to the Congress on February 22, and I understand they have been referred to the Foreign Relations Committee. In the interest of time, Mr. Chairman, I won't go into these, unless subsequent questions from the subcommittee so require.

That concludes my statement, Mr. Chairman, and I call on General Gast.

[The prepared statement of William Schneider, Jr., follows:]

PREPARED STATEMENT OF WILLIAM SCHNEIDER, JR.

UNDER SECRETARY OF STATE
SECURITY ASSISTANCE, SCIENCE AND TECHNOLOGY

U.S. FOREIGN ASSISTANCE PROGRAMS CONSTITUTE AN INTEGRAL PART OF THIS NATION'S RESPONSE TO INTERNATIONAL POLITICAL AND ECONOMIC DEVELOPMENTS THROUGHOUT THE WORLD. RESOURCES PROVIDE US WITH THE MEANS TO EXERCISE LEADERSHIP INTERNATIONALLY AND ENABLE US TO HELP DEVELOPING COUNTRIES ADDRESS THEIR MOST PRESSING PROBLEMS.

SECRETARY SHULTZ, IN HIS TESTIMONY YESTERDAY, PRESENTED AN OVERVIEW OF OUR FOREIGN ASSISTANCE PROGRAM IN THE CONTEXT OF OUR ECONOMIC AND SECURITY TIES TO THE DEVELOPING WORLD. I AM HERE TODAY TO DISCUSS IN DETAIL U.S. SECURITY ASSISTANCE PROGRAMS.

WE HAVE DEVELOPED AN INTEGRATED FOREIGN ASSISTANCE PROGRAM IN WHICH DEVELOPMENT AND SECURITY ASSISTANCE COMBINE TO MEET OUR ECONOMIC AND NATIONAL SECURITY OBJECTIVES AS WELL AS THOSE OF OTHER COUNTRIES WHO SHARE THESE OBJECTIVES. SECURITY ASSISTANCE IS BUT ONE ASPECT OF THE WHOLE. IT IS IMPORTANT TO KEEP IN MIND THAT ASSISTANCE TO PROMOTE ECONOMIC GROWTH AND DEVELOPMENT AND SECURITY ASSISTANCE ARE MUTUALLY REINFORCING PROGRAMS THAT CANNOT FUNCTION INDEPENDENTLY.

THE UNITED STATES HAS MULTIPLE INTERESTS INVOLVING THE DEVELOPING WORLD. ON THE ECONOMIC LEVEL, ABOUT 40 PERCENT OF TOTAL U.S. EXPORTS ARE TO LESS DEVELOPED COUNTRIES. U.S. INDUSTRY DEPENDS ON IMPORTS OF PRIMARY COMMODITIES, MINERALS AND PETROLEUM. OPEN TRADING AND FINANCIAL SYSTEMS ARE IMPORTANT TO THE ECONOMIC HEALTH OF DEVELOPED AND DEVELOPING COUNTRIES ALIKE. ECONOMIC PROGRESS IN THE DEVELOPING COUNTRIES

AND RECOVERY IN THE INDUSTRIALIZED NATIONS CANNOT OCCUR INDEPENDENT OF REGIONAL SECURITY AND STABILITY. A SENSE OF SECURITY FROM EXTERNAL THREAT AND INTERNAL UPHEAVAL IS A NECESSARY PRECONDITION OF DEVELOPMENT, AND OUR OWN SELF INTEREST REQUIRES THAT WE PAY CLOSE ATTENTION TO EVENTS IN THE SOMETIMES SEEMINGLY REMOTE COUNTRIES THAT ARE COMMONLY REFERRED TO AS THE THIRD WORLD. IT IS ONLY AT OUR OWN PERIL THAT WE IGNORE OR FAIL TO REPOND WISELY TO THEIR SECURITY AND DEVELOPMENT NEEDS.

AS IT IS INTEGRAL TO OUR FOREIGN POLICY, SO TOO IS SECURITY ASSISTANCE AN INSEPARABLE INGREDIENT OF OUR OWN DEFENSE PLANNING. THIS ADMINISTRATION HAS SOUGHT TO ENHANCE THE SECURITY OF THE UNITED STATES AND TO STRENGTHEN ITS ABILITY TO PROTECT ITS INTERESTS IN VARIOUS REGIONS OF THE WORLD. THIS REQUIRES INCREASING OUR OWN DEFENSE CAPABILITIES AND CONDUCTING EFFECTIVE DIPLOMACY. IN PART, HOWEVER, IT ALSO REQUIRES A REALISTIC INCREASE IN SECURITY ASSISTANCE TO ALLIES AND FRIENDS AROUND THE WORLD.

THE LINK BETWEEN U.S. DEFENSE PLANNING AND SECURITY ASSISTANCE IS DIRECT AND OCCURS AT SEVERAL LEVELS. THE U.S. ALONE DOES NOT AND CANNOT MAINTAIN A FORCE STRUCTURE AND CAPABILITIES SUFFICIENT TO DEFEND THE FREE WORLD. WE MUST DEPEND UPON ALLIES TO DETER LOCAL THREATS TO OUR COMMON INTERESTS. WE FACTOR THEIR CAPABILITIES INTO OUR PLANNING AND THE SECURITY ASSISTANCE PROGRAM IS THE VEHICLE FOR PROVIDING THEM THE NECESSARY EQUIPMENT AND TRAINING. IT WOULD COST $60,000 TO EQUIP AND MAINTAIN ONE U.S. SOLDIER IN TURKEY, SHOULD THAT BE NECESSARY, IT COSTS ONLY $9,000 FOR ONE TURKISH SOLDIER, THUS, SECURITY ASSISTANCE IS COST-EFFECTIVE.

SECOND, SECURITY ASSISTANCE ENABLES US TO MAINTAIN COOPERATIVE RELATIONSHIPS NECESSARY FOR OUR STRATEGIC

PLANNING. FOR EXAMPLE, THE RAPID DEPLOYMENT FORCE CANNOT PERFORM ITS MISSION IN A SOUTHWEST ASIAN CONTINGENCY UNLESS IT CAN MOVE TO THE AREA PROMPTLY, EQUIPPED TO FIGHT AS NECESSARY. THIS REQUIRES ENROUTE ACCESS AND TRANSIT RIGHTS AS WELL AS PREPOSITIONED EQUIPMENT AND SUPPLIES IN THE REGION. WE CANNOT EXPECT OTHER NATIONS TO COOPERATE WITH US UNLESS WE ARE EQUALLY RESPONSIVE TO THEIR LEGITIMATE NEEDS. WE MUST BE A RELIABLE FRIEND IF WE ARE TO HAVE RELIABLE FRIENDS.

THIRD, THE MILITARY SECURITY ASSISTANCE PROGRAMS ARE MANAGED BY DOD IN CONJUNCTION WITH U.S. PROCUREMENT SO THAT BOTH THE U.S. AND THE FOREIGN BUYER REAP THE BENEFITS OF CONSOLIDATED PLANNING AND ECONOMIES OF SCALE. THIS ENTAILS BOTH INTEGRATED PROCUREMENT OF WEAPONS SYSTEMS AND TYING FOREIGN BUYERS DIRECTLY INTO OUR SUPPLY SYSTEMS TO ENSURE TIMELY, EFFECTIVE LOGISTICAL SUPPORT. CUTTING BACK ON FOREIGN SALES BY THE U.S. WILL ONLY SERVE TO CHANNEL THESE SALES TO OTHERS AND RAISE THE COSTS OF OUR OWN PURCHASES.

FOURTH, SECURITY ASSISTANCE HELPS TO MAINTAIN A STRONG DEFENSE INDUSTRIAL BASE IN THE UNITED STATES. VIRTUALLY ALL SECURITY ASSISTANCE RESOURCES ARE SPENT IN THE U.S. ON U.S. EQUIPMENT AND SERVICES.

FINALLY, ALLIES AND FRIENDS WHO ARE ABLE TO DETER AND DEFEND AGAINST LOCAL THREATS PROVIDE THE PRESIDENT TIME AND CHOICES IN A CRISIS SITUATION. SPECIFICALLY, THE PRESIDENT IS NOT FACED WITH THE SUDDEN CHOICE OF INTERVENING DIRECTLY WITH U.S. FORCES AT THE REQUEST OF AN ALLY, OR ACQUIESCING TO AGGRESSION. A SECURITY ASSISTANCE RECIPIENT WITH A STRONG DEFENSIVE CAPABILITY PROVIDES VALUABLE TIME FOR THE U.S. TO CONSIDER ITS OWN APPROPRIATE RESPONSE.

IN SUM, ADEQUATELY FUNDED, EFFICIENTLY ADMINISTERED SECURITY ASSISTANCE PROGRAMS ARE ESSENTIAL TO U.S. DEFENSE PLANNING. WITHOUT THEM, OUR OWN DEFENSE EFFORT WOULD BE BOTH FAR MORE COSTLY AND, IN TIMES OF CRISIS, EVEN DANGEROUSLY CRIPPLED.

ONE ASPECT OF SECURITY ASSISTANCE THAT BEARS SPECIAL MENTION IS THE ECONOMIC SUPPORT FUND (ESF). ESF IS NOT SIMPLY ANOTHER FORM OF CREDITS FOR MILITARY PURCHASES. WE DO PROGRAM A MAJOR PERCENTAGE OF ESF TO COUNTRIES WHERE WE ALSO HAVE A SIGNIFICANT MILITARY ASSISTANCE PROGRAM. WE USE ESF TO ADDRESS ECONOMIC PROBLEMS IN A WAY THAT COMPLEMENTS AND ENHANCES BOTH THE MILITARY AND DEVELOPMENT ASSISTANCE WE PROVIDE.

MANY LDCS TODAY ARE REELING FROM THE MULTIPLE SHOCK OF HIGH ENERGY COSTS, DECREASED DEMAND FOR THEIR EXPORTS, AND THEIR OWN ECONOMIC MISMANAGEMENT. POLITICAL STABILITY AND THE ABILITY TO FEND OFF EXTERNAL THREATS ARE SIMPLY IMPOSSIBLE OBJECTIVES IF A COUNTRY CANNOT ACHIEVE ECONOMIC GROWTH SUFFICIENT TO ENABLE IT TO MEET THE ASPIRATIONS OF ITS PEOPLE. ESF HELPS THE U.S. ASSERT A LEADERSHIP ROLE IN FOSTERING ECONOMIC RECOVERY IN NATIONS OF HIGH STRATEGIC IMPORTANCE TO US. IN SOME INSTANCES, SUCH AS ISRAEL, ESF PROVIDES NEEDED BUDGET SUPPORT. IN OTHERS, SUCH AS PAKISTAN, JAMAICA AND THE SUDAN, ESF HELPS US TO SUPPORT COUNTRIES THAT ARE MAKING EFFORTS TO RESTRUCTURE THEIR ECONOMIES AND TO BECOME MORE SELF-RELIANT IN THE FUTURE. IN STILL OTHERS, SUCH AS KENYA AND BOTSWANA, ESF MEETS BASIC HUMAN NEEDS AS DO DEVELOPMENT ASSISTANCE PROGRAMS. FLEXIBILITY IS THE MOST IMPORTANT ATTRIBUTE OF ESF, AND IT IS AN IMPORTANT COMPLEMENT TO OTHER TRADE, FINANCE AND AID POLICIES AND PROGRAMS.

FY 1983 SUPPLEMENTAL

THE FY 1983 CONTINUING RESOLUTION UNDER WHICH WE ARE OPERATING DOES NOT PROVIDE ADEQUATE FUNDS TO ACHIEVE NECESSARY NATIONAL SECURITY OBJECTIVES.

AFTER CAREFUL CONSIDERATION, WE HAVE RELUCTANTLY CONCLUDED THAT WE CANNOT, WITHOUT SACRIFICING IMPORTANT INTERESTS, OPERATE WITHIN CONTINUING RESOLUTION LEVELS. OUR PROBLEMS ARE ACCENTUATED FURTHER BY THE EXTENSIVE EARMARKING IN EXISTING AUTHORIZATION LEGISLATION AND IN THE CONTINUING RESOLUTION ITSELF. THE ADMINISTRATION IS OBLIGED, THEREFORE, TO SEEK ADDITIONAL FUNDING FOR THE CURRENT FISCAL YEAR COINCIDENT WITH OUR REQUEST FOR FY 1984.

BEFORE GETTING INTO SPECIFICS, LET ME REVIEW BRIEFLY THE FIVE SECURITY ASSISTANCE PROGRAMS. ALTHOUGH WELL KNOWN TO YOU, THEY HAVE EVOLVED TO MEET CHANGING NEEDS AROUND THE WORLD.

-- FOREIGN MILITARY SALES (FMS) FINANCING FACILITATES THE PURCHASE OF U.S. MILITARY EQUIPMENT, SPARES OR TRAINING. THERE ARE TWO TYPES OF FMS FINANCING: DIRECT CREDITS, WHICH INVOLVE APPROPRIATED FUNDS, AND GUARANTIED LOANS, WHICH DO NOT. WHILE DIRECT CREDIT CAN, UNDER THE LAW, BE PROVIDED WITH VARYING DEGREES OF CONCESSIONALITY, THE CONGRESS HAS IN RECENT YEARS LIMITED ITS USE TO A FEW RECIPIENTS, FOR WHICH IT HAS WAIVED IN ADVANCE THE REQUIREMENT TO REPAY. USG GUARANTIED LOANS ARE PROVIDED TO A WIDE RANGE OF COUNTRIES -- BUT 85 PERCENT OF THE PROGRAM IS DIRECTED TO SEVEN KEY COUNTRIES (SPAIN, TURKEY, GREECE, PAKISTAN, ISRAEL, EGYPT AND KOREA). SUCH LOANS ARE MADE BY THE FEDERAL FINANCING BANK AND BEAR AN INTEREST RATE REFLECTING THE COST OF MONEY TO THE TREASURY.

-- THE ECONOMIC SUPPORT FUND (ESF) OF WHICH I HAVE ALREADY

SPOKEN, PROVIDES LOANS OR GRANTS TO PROMOTE POLITICAL AND ECONOMIC STABILITY IN COUNTRIES OF SPECIAL ECONOMIC, POLITICAL OR SECURITY INTEREST TO THE U.S. THIS ASSISTANCE MAY BE IN THE FORM OF CASH TRANSFERS FOR BALANCE OF PAYMENTS OR BUDGET SUPPORT, COMMODITY IMPORT PROGRAMS OR PROJECT ASSISTANCE.

-- THE MILITARY ASSISTANCE PROGRAM (MAP) PROVIDES GRANT FUNDING FOR DEFENSE ARTICLES AND SERVICES. WHEREAS IN THE PAST MAP WAS USED TO PROVIDE SPECIFIC MILITARY ITEMS, IT CURRENTLY HELPS RECIPIENT COUNTRIES PAY FOR EQUIPMENT PURCHASED UNDER THE FMS PROGRAM. WE OFTEN PROVIDE A DEGREE OF CONCESSIONALITY IN FINANCING MILITARY PURCHASES THROUGH A COMBINATION OF FMS GUARANTIED LOANS AND GRANT MAP FUNDS. WHILE THE PERCENTAGE RISE OVER OUR FY 1983 REQUEST IS SIGNIFICANT, THE DOLLAR CHANGE IS MORE MODEST AND CLEARLY REFLECTS THE CONTINUING IMPACT OF WORLDWIDE RECESSION ON THE ABILITY OF RECIPIENTS TO PAY FOR NECESSARY DEFENSE REQUIREMENTS.

-- INTERNATIONAL MILITARY EDUCATION AND TRAINING (IMET) PROVIDES GRANT FUNDS FOR PROFESSIONAL MILITARY TRAINING. MOST IS USED TO BRING PROMISING MILITARY PERSONNEL TO THE U.S. FOR SPECIALIZED TRAINING -- WHICH OFTEN HAS THE ADDED ADVANTAGE OF EXPOSING FUTURE MILITARY LEADERS TO AMERICAN VALUES AND INSTITUTIONS. THE IMET PROGRAM, WHILE RELATIVELY SMALL IN DOLLARS COMMITTED, MAY WELL HAVE THE HIGHEST MARGINAL RETURN OF ANY ASSISTANCE PROGRAM.

-- PEACEKEEPING OPERATIONS (PKO), THE SMALLEST OF THE SECURITY ASSISTANCE ACCOUNTS, PERMITS US TO PARTICIPATE IN MULTILATERAL PEACEKEEPING ACTIVITIES IN SOME OF THE WORLD'S MOST VOLATILE AREAS. FOR FISCAL 1983 AND 84, THE ONLY PEACEKEEPING PROGRAMS FORESEEN ARE THOSE IN THE SINAI AND CYPRUS.

LEBANON SUPPLEMENTAL

I WOULD LIKE TO TURN NOW TO THE FIRST OF THE TWO SUPPLEMENTALS WE ARE SEEKING: $251 MILLION TO HELP RESTORE PEACE AND STABILITY IN WAR-TORN LEBANON. THIS IS A ONE-TIME SPECIAL RECONSTRUCTION PACKAGE. IN FY 1984 AND BEYOND, WE EXPECT TO REVERT TO TRADITIONAL LEVELS OF ASSISTANCE.

-- $150 MILLION IN ESF GRANTS. THESE ARE "NO-YEAR" FUNDS TO BE OBLIGATED IN BOTH FY 83, AND FY 84, ABOUT $100 MILLION AND $50 MILLION RESPECTIVELY. THESE FUNDS, TOGETHER WITH FUNDS FROM OTHER DONORS, WILL HELP THE LEBANESE GOVERNMENT REBUILD ITS SHATTERED ECONOMIC INFRASTRUCTURE.

-- $100 MILLION IN FMS GUARANTIED LOANS. THIS WILL HELP FINANCE PHASE II, IF NECESSARY, AND PHASE III OF THE EFFORT TO RECONSTITUTE THE LEBANESE ARMED FORCES. PHASE I, NOW ALMOST COMPLETE, INVOLVES THE FORMATION OF FOUR NEW BRIGADES AND EQUIPPING THEM TO 70 PERCENT STRENGTH. PHASE II WILL BRING ONE OF THOSE BRIGADES UP TO 100 PERCENT STRENGTH AND ADD A FIFTH BRIGADE. WE HAVE SIGNED LETTERS OF OFFER FOR MOST OF THIS EQUIPMENT EXCEPT APC'S WHICH WILL REQUIRE CONGRESSIONAL NOTIFICATION. THE TOTAL BILL FOR PHASE II IS EXPECTED TO BE ON THE ORDER OF $55 MILLION. PHASE III WOULD ADD TWO MORE BRIGADES AT A COST OF $105 MILLION.

-- $1 MILLION IN IMET. THIS WILL SEND U.S. TRAINING TEAMS TO LEBANON AND BRING LEBANESE MILITARY OFFICERS AND ENLISTED CREWS TO THE UNITED STATES FOR SPECIALIZED TRAINING.

I AM CERTAIN THAT MEMBERS OF THIS SUBCOMMITTEE RECOGNIZE THAT VERY IMPORTANT NATIONAL INTERESTS ARE AT STAKE IN TROUBLED LEBANON. WE HAVE A VITAL INTEREST IN ENDING HOSTILITIES AND

PROMOTING THE WITHDRAWAL OF ALL FOREIGN FORCES IN A MANNER THAT PROMOTES LASTING PEACE AND STABILITY. THE MNF CANNOT PLAY A PERMANENT, DIRECT ROLE IN MAINTAINING INTERNAL SECURITY. THE LAF MUST GRADUALLY ASSUME RESPONSIBILITY FOR THAT JOB. THE EXACT SHAPE OF LAF DEPLOYMENTS WILL BE DETERMINED IN PART BY THE OUTCOME OF THE CURRENT NEGOTIATIONS WITH ISRAEL.

THE QUESTION IS NOT WHETHER WE SHOULD PARTICIPATE IN LEBANON'S RECOVERY NOR WHETHER WE SHOULD HELP LEBANON DEVELOP THE CAPACITY TO DEFEND ITS NATIONAL INTEGRITY, BUT HOW QUICKLY WE CAN BRING ABOUT THESE GOALS. I URGE YOU TO CONSIDER THIS SUPPLEMENTAL REQUEST ON AN URGENT BASIS SO THAT WE CAN CONTINUE THE ENORMOUS TASK OF RECONSTRUCTION.

FY 1983 SECURITY ASSISTANCE SUPPLEMENTAL

OUR OTHER SUPPLEMENTAL REQUEST ALSO REQUIRES URGENT ATTENTION. IN THESE TIMES OF ECONOMIC CONSTRAINTS AND DOMESTIC BELT-TIGHTENING, IT TAKES A REALLY SERIOUS SITUATION TO COME BEFORE THE CONGRESS TO ASK FOR MORE FOREIGN AID. WE ARE CONVINCED, HOWEVER, THAT THE REQUEST IN THIS CASE IS NOT ONLY JUSTIFIED, BUT THAT WE HAVE NO RESPONSIBLE ALTERNATIVE.

THE REASONS ARE THESE:

THE CONTINUING RESOLUTION IS $961 MILLION, OR 11 PERCENT, BELOW THE AMOUNT WE REQUESTED FOR SECURITY ASSISTANCE IN FY 1983. THIS MEANS CUTS OF 48 PERCENT IN MAP, 17 PERCENT IN IMET, 16 PERCENT IN FMS GUARANTIED LOANS, AND 8 PERCENT IN ESF. THERE WAS A 24 PERCENT INCREASE IN FORGIVEN FMS CREDIT, BUT THIS WAS COMPLETELY EARMARKED FOR ISRAEL AND EGYPT (AT LEVELS ABOVE THE ADMINISTRATION REQUEST) AND DID NOT PROVIDE FUNDS FOR THE SUDAN PROGRAM, EARMARKED IN AUTHORIZATION LEGISLATION.

INDEED, MORE THAN HALF OF THE MAP, ESF AND FMS GUARANTIED LOAN IS EARMARKED. THIS MAGNIFIES THE REDUCTIONS TO BE ABSORBED BY THE REMAINING UNEARMARKED COUNTRIES. FOR INSTANCE, THE EFFECTIVE CUT FOR THESE COUNTRIES AVERAGES NEARLY 70 PERCENT IN MAP AND 50 PERCENT IN FMS.

WE CANNOT CARRY OUT AN EFFECTIVE SECURITY ASSISTANCE PROGRAM WITH SUCH EXTENSIVE REDUCTIONS. WE FACE UNACCEPTABLE CHOICES AS TO WHICH CRITICAL INTERESTS TO FULFILL AND WHICH TO SACRIFICE.

WE DO NOT SEEK A TOTAL RESTORATION OF ALL DIFFERENCE BETWEEN OUR REQUEST AND THE CR LEVEL. WE ARE REQUESTING $167 MILLION IN ADDITIONAL MAP APPROPRIATIONS, $144.5 MILLION MORE IN ESF APPROPRIATIONS AND $425 MILLION IN FMS GUARANTIED LOANS. LET ME DESCRIBE HOW THE SUPPLEMENTAL FUNDS WILL BE USED.

MAJOR MAP RECIPIENTS WILL BE: SUDAN ($50 MILLION); TUNISIA ($30 MILLION); THAILAND ($16 MILLION); AND KENYA ($12.5 MILLION). AS I NOTED ABOVE, $50 MILLION IN FORGIVEN FMS CREDIT IS EARMARKED IN AUTHORIZATION LEGISLATION FOR SUDAN, YET NO FUNDS WERE APPROPRIATED. SUDAN FACES SEVERE ECONOMIC PROBLEMS AND A SERIOUS THREAT FROM NEIGHBORING LIBYA. ITS CONTINUED SECURITY IS IMPORTANT TO THE MIDDLE EAST PEACE PROCESS, AND TO OUR ACCESS TO SOUTHWEST ASIA SHOULD THE NEED ARISE. THE SUDANESE ECONOMY IS IN DIRE STRAITS; IT CANNOT SERVICE SIZEABLE HIGH INTEREST GUARANTIED LOANS.

TUNISIA, ANOTHER GOOD FRIEND THREATENED BY LIBYA, NEEDS MAP, COUPLED WITH ADDITIONAL GUARANTIED LOANS, TO PURCHASE TANKS AND TRANSPORT AIRCRAFT. THE TOTAL PACKAGE PROVIDES NECESSARY CONCESSIONALITY TO HELP TUNISIA'S MILITARY MODERNIZATION PROGRAM.

A SIMILAR RATIONALE SUPPORTS OUR PROPOSALS FOR THAILAND, WHICH JUST LAST WEEK WAS ATTACKED BY THE SOVIET-BACKED VIETNAMESE FORCES RANGED ALONG ITS EASTERN BORDER, AND FOR KENYA, WHICH CONTRIBUTES TO STABILITY AND TO OUR OBJECTIVES IN THE HORN OF AFRICA AND SOUTHWEST ASIA. WE ARE ALSO SEEKING SMALL AMOUNTS OF MAP FUNDING IN THE SUPPLEMENTAL TO PREVENT SEVERAL SMALL PROGRAMS IN AFRICA AND LATIN AMERICA FROM BEING ELIMINATED.

IN ADDITION, WE ARE REQUESTING $25 MILLION TO REIMBURSE THE U.S. SERVICE ACCOUNTS FOR DRAWDOWNS OF DEFENSE ARTICLES AND SERVICES PURSUANT TO SECTION 506 OF THE FAA FOR EL SALVADOR.

MAJOR ESF RECIPIENTS ARE: TURKEY ($55 MILLION), SUDAN ($25 MILLION), ZIMBABWE ($15 MILLION) AND THE DOMINICAN REPUBLIC AND CYPRUS ($10 MILLION EACH). LAST YEAR WE PLEDGED $350 MILLION TO A MULTILATERAL EFFORT THROUGH OECD TO HELP PUT TURKEY BACK ON ITS FINANCIAL FEET. THE REQUESTED $55 MILLION, TOGETHER WITH THE $245 MILLION ALLOCATED UNDER THE CR FOR THIS PURPOSE, STILL LEAVES US $50 MILLION SHORT OF OUR PLEDGE.

FOR SUDAN, WE HOPE TO GENERATE MATCHING SUPPORT FROM OTHERS TO ENABLE SUDAN TO MEET IMF FOREIGN EXCHANGE REQUIREMENTS. SUCH SUPPORT IS ESSENTIAL FOR A COUNTRY WHOSE ANNUAL DEBT SERVICE COSTS ARE EXPECTED TO EXCEED ITS TOTAL IMPORTS THIS YEAR. WE SEEK ADDITIONAL FUNDS FOR ZIMBABWE TO FULFILL OUR PUBLIC PLEDGE TO PROVIDE $75 MILLION FOR THREE YEARS.

THE ADMINISTRATION REMAINS COMMITTED TO FOSTERING CARIBBEAN ECONOMIC GROWTH AND STABILITY. THE SUPPLEMENTAL IS ESSENTIAL TO THIS ENDEAVOR. WE ARE ASKING AS WELL FOR SUPPLEMENTAL FUNDS TO MEET THE CONGRESSIONAL EARMARKS FOR

CYPRUS, AND FOR ADDED FUNDING FOR THE MIDDLE EAST REGIONAL PROGRAM WHICH PROMOTES COOPERATION BETWEEN ISRAEL AND EGYPT.

THE OFF-BUDGET FMS GUARANTIED LOAN REQUEST OF $425 MILLION WILL SUPPORT PAKISTAN ($75 MILLION), KOREA ($70 MILLION), TURKEY ($65 MILLION), TUNISIA ($43 MILLION), JORDAN ($35 MILLION), AND INDONESIA ($30 MILLION). SEVERAL SMALLER COUNTRY PROGRAMS REQUIRE FUNDING TO PREVENT THEM FROM BEING ELIMINATED ALTOGETHER. THE PAKISTAN PROGRAM WILL BE RAISED TO THE REQUESTED LEVEL CONSISTENT WITH OUR FIVE YEAR PROGRAM OF SUPPORT FOR THAT COUNTRY AND TO PERMIT PAKISTAN TO PAY FOR EQUIPMENT ALREADY ORDERED. KOREA HAS BEEN FORCED BY RESOURCE CONSTRAINTS TO POSTPONE BADLY NEEDED MODERNIZATION PROGRAMS IN SUCH AREAS AS AIR DEFENSE RADAR INSTALLATION. THE SUPPLEMENTAL WILL ENABLE US TO RESTORE THE 33 PERCENT CUT FROM THE REQUESTED LEVEL. THE REQUEST FOR TURKEY WILL ALLOW A SLIGHT INCREASE OVER THE AMOUNT PROVIDED IN FY 82 TO OFFSET GRANT MAP REDUCTIONS MANDATED IN THE CR. THE REQUEST FOR JORDAN WILL RETURN THIS CRITICAL PROGRAM TO ITS REQUESTED LEVEL. IF JORDAN IS TO JOIN THE PEACE PROCESS, IT MUST BE CONFIDENT OF U.S. SUPPORT.

WE ARE NOT SEEKING SUPPLEMENTAL INCREASES IN FUNDS FOR EITHER IMET -- ALTHOUGH REDUCTIONS HAVE FORCED MAJOR RETRENCHMENTS IN THIS HIGHLY EFFECTIVE PROGRAM -- OR IN PEACEKEEPING OPERATIONS.

OUR SECURITY ASSISTANCE PROGRAM IN FY 1983 HAS BEEN SERIOUSLY COMPROMISED BY INADEQUATE FUNDING. WE HAVE PLANNED FOR THESE EXTREMELY SCARCE FUNDS TO CONTINUE THE ABSOLUTE HIGHEST PRIORITY COUNTRY PROGRAMS AND TO CONFORM TO THE CONGRESSIONAL EARMARKS. HOWEVER, IF THE SUPPLEMENTAL REQUEST IS NOT APPROVED, COUNTRY PROGRAMS THAT ARE ONLY MARGINALLY LESS CRITICAL WILL SUFFER GRIEVOUSLY AND MANY OF THE SMALLER

PROGRAMS WILL HAVE TO BE EITHER CUT TO THE POINT OF INEFFECTIVENESS OR TERMINATED ALTOGETHER. WE DO NOT WANT -- AND WE TRUST THE CONGRESS DOES NOT WANT -- TO BE RESPONSIBLE FOR THE NEGATIVE IMPACT ON U.S. INTERESTS AND OUR BILATERAL RELATIONSHIPS THAT WOULD RESULT.

FY 1984 SECURITY ASSISTANCE REQUEST

NOW LET ME MOVE ON TO WHAT WOULD NORMALLY HAVE BEEN THE ONLY SUBJECT OF MY TESTIMONY TODAY -- THE FY 1984 SECURITY ASSISTANCE AUTHORIZATION REQUEST.

WE ARE REQUESTING TOTAL SECURITY ASSISTANCE PROGRAMS OF $9.2 BILLION, REQUIRING $4.8 BILLION IN NEW FY 1984 BUDGET AUTHORITY. THERE IS NO REAL GROWTH. IN FACT, THE PROGRAM TOTAL REPRESENTS A MODEST 4.5 PERCENT INCREASE OVER OUR REVISED REQUEST FOR FY 1983. BY PROGRAM, WE ARE SEEKING APPROPRIATION OF $747 MILLION IN MAP, A 63 PERCENT INCREASE WHICH IS ESSENTIAL TO PROVIDE FOR INCREASED MILITARY INPUTS AT MORE CONCESSIONAL RATES; A VIRTUAL STRAIGHT-LINING OF ESF, TO $2,949 MILLION, $56.532 MILLION IN IMET, AN INCREASE OF 22.9 PERCENT; AND $4,436 MILLION IN OFF-BUDGET FMS GUARANTIED LOANS, A 6.6 PERCENT INCREASE. WE ARE REQUESTING $1 BILLION IN FORGIVEN FMS DIRECT CREDITS FOR ISRAEL AND EGYPT, AND A PKO CONTRIBUTION OF $46.2 MILLION FOR THE MULTILATERAL FORCE AND OBSERVERS IN THE SINAI AND THE U.N. FORCES IN CYPRUS.

THESE FIGURES ARE DETERMINED BY AN INTERAGENCY PROCESS WHICH CAREFULLY REVIEWS ALL OUR PROGRAMS. OUR KEY STRATEGIC OBJECTIVES ARE ESTABLISHED AND COORDINATED WITH FOREIGN POLICY AND DEFENSE PLANNING. WE THEN DESIGN A SECURITY ASSISTANCE

PROGRAM THAT IS CAREFULLY INTEGRATED WITH DEVELOPMENT ASSISTANCE PRIORITIES TO FULFILL KEY STRATEGIC OBJECTIVES. SINCE I HAVE JUST RETURNED FROM ACCOMPANYING THE SECRETARY ON A TRIP TO EAST ASIA, I WOULD LIKE TO DISCUSS THAT VITAL AREA OF THE WORLD FIRST.

EAST ASIA: PROMOTING PACIFIC SECURITY

FOR THE PACIFIC, WE ARE REQUESTING $506 MILLION FOR TEN COUNTRIES -- ABOUT 5.5 PERCENT OF THE TOTAL SECURITY ASSISTANCE REQUEST. THE BULK OF FUNDING HERE GOES TO COUNTRIES WITH WHICH WE HAVE FIRM MUTUAL SECURITY AGREEMENTS. MORE THAN 85 PERCENT OF THE PROGRAM GOES TO THREE COUNTRIES: KOREA, THAILAND AND THE PHILIPPINES.

THE REPUBLIC OF KOREA IS DIRECTLY THREATENED BY NORTH KOREA, WHICH SPENDS 15-20 PERCENT OF GNP ON ARMS, HAS 12 PERCENT LARGER FORCES THAN THE SOUTH, AND MORE THAN TWICE THE NUMBER OF ARTILLERY PIECES, TANKS, AND COMBAT AIRCRAFT. OUR $230 MILLION REQUEST WILL HELP KOREA PURCHASE PRIORITY ITEMS IN ITS SECOND FORCE IMPROVEMENT PLAN SUCH AS AIRCRAFT, AIR DEFENSE MISSILES AND IMPROVED ARMOR AND ARTILLERY CAPABILITY.

FOR THAILAND, WE ARE REQUESTING $106.4 MILLION TO BE USED PRIMARILY FOR TANKS, ANTI-AIRCRAFT MISSILES AND AIRCRAFT. THE THAIS FACE A DIRECT THREAT FROM AN ESTIMATED 180,000 SOVIET-BACKED VIETNAMESE SOLDIERS ACROSS THEIR EASTERN BORDER IN KAMPUCHEA. BY ASSISTING THAILAND, WE HELP TO DETER AGGRESSION AND SHOW ASEAN COUNTRIES OUR COMMITMENT TO SUPPORT THEIR INDEPENDENCE AND SECURITY. OUR ASSISTANCE PROGRAM ALSO HAS A CATALYTIC EFFECT BY ENCOURAGING GREATER REGIONAL POLITICAL AND DEFENSE COOPERATION.

OUR FY 84 PROGRAM FOR THE PHILIPPINES REPRESENTS THE FINAL

YEAR OF THE SECURITY ASSISTANCE PLEDGE WHICH PRESIDENT CARTER MADE IN 1979 FOLLOWING THE SUCCESSFUL AMENDMENT OF THE MILITARY BASE AGREEMENT. CLARK AIR BASE, SUBIC NAVAL BASE AND OTHER FACILITIES THERE HELP TO SUSTAIN THE U.S. POSITION AS AN ASIAN POWER AND TO PROJECT AMERICAN POWER INTO THE INDIAN OCEAN. FINALLY, I WOULD NOTE OUR TWO SMALLER BUT IMPORTANT PROGRAMS IN INDONESIA AND MALAYSIA, WHICH PROMOTE SECURITY INTERESTS IN THESE POPULOUS, RESOURCE RICH COUNTRIES LYING BESIDE VITAL SEA LINKS BETWEEN THE PACIFIC AND INDIAN OCEANS.

FURTHERING THE MIDDLE EAST PEACE PROCESS

A FUNDAMENTAL U.S. OBJECTIVE, REQUIRING THE LARGEST PERCENTAGE OF FUNDS, IS TO FURTHER THE MIDDLE EAST PEACE PROCESS. NOWHERE IS THE NEED FOR CONSISTENCY, RELIABILITY, AND BALANCE IN U.S. FOREIGN POLICY MORE EVIDENT THAN IN THE MIDDLE EAST. OUR POLICY IN THE REGION IS BASED ON TWO MUTUALLY REINFORCING GOALS: 1) THE SEARCH FOR A JUST AND LASTING PEACE AMONG ALL OF THE STATES IN THE AREA, AND 2) THE REQUIREMENT THAT OUR FRIENDS IN THE REGION BE ABLE TO ASSURE THEIR SECURITY AGAINST THREATS FROM THE OUTSIDE AND FROM THE PRESSURES OF SOVIET SURROGATES AND RADICAL FORCES WITHIN THE REGION.

U.S. ASSISTANCE PROGRAMS TO ISRAEL AND EGYPT REFLECT OUR BEST APPRAISAL OF THEIR REAL NEEDS. OUR PROGRAMS ARE DESIGNED TO HELP GIVE THESE NATIONS THE CONFIDENCE TO CONTINUE ON THE PATH TOWARD PEACE BEGUN AT CAMP DAVID.

LEBANON AND JORDAN ARE ALSO CRITICAL TO PEACE AND SECURITY IN THE MIDDLE EAST. I SPOKE EARLIER ABOUT LEBANON IN THE CONTEXT OF THE FY 83 SUPPLEMENTAL. THE STRENGTHENING OF INSTITUTIONS AND THE FOSTERING OF A NATIONAL CONSENSUS IN LEBANON WOULD HELP SIGNIFICANTLY TO STABILIZE THE AREA AND

WOULD THEREBY REMOVE ONE OF THE MAJOR FLASHPOINTS OF CONFLICT IN THE REGION.

OUR CONTINUED SUPPORT FOR JORDAN INCREASES ITS ABILITY TO REMAIN A VIABLE, MODERATE ACTOR IN THE REGION AND ENCOURAGES IT TO ASSUME AN ACTIVE ROLE IN THE PEACE PROCESS. NUMERICALLY OUTMANNED BY A POTENTIALLY AGGRESSIVE NEIGHBOR, JORDAN DEPENDS ON WELL-EQUIPPED, HIGH QUALITY, HIGHLY MOTIVATED FORCES TO DETER ATTACK. INASMUCH AS THE RISKS TO JORDAN WOULD INCREASE IF IT JOINS THE PEACE PROCESS, JORDAN MUST KNOW THAT IT HAS A STAUNCH FRIEND IN THE UNITED STATES WHO WILL SUPPLY AND PROVIDE FINANCING FOR MILITARY MODERNIZATION NEEDS. THE REQUESTED $115 MILLION PROGRAM FOR JORDAN IS DESIGNED TO HELP MODERNIZE THE ARMED FORCES THROUGH PURCHASES OF EQUIPMENT INCLUDING ARMOR, ARTILLERY, AIRLIFT EQUIPMENT AND TOW MISSILES.

FOR FY 1984 WE PLAN TO DEVOTE ABOUT 51 PERCENT OF OUR TOTAL SECURITY ASSISTANCE PROGRAM TO THIS PEACE EFFORT. IN PROGRAM TERMS, THIS IS $1,570 MILLION IN ESF, $1,000 MILLION IN FORGIVEN FMS CREDIT, $2,130 MILLION IN FMS GUARANTIED LOANS, $4.75 MILLION IN IMET, AND $37.2 MILLION FOR PEACEKEEPING OPERATIONS IN THE SINAI. BY COUNTRY, IT AMOUNTS TO $2,485 MILLION FOR ISRAEL, $2,052 MILLION FOR EGYPT, $137 MILLION FOR JORDAN, AND $15.75 MILLION FOR LEBANON.

STRENGTHENING THE NATO ALLIANCE AND EUROPE

THE STRATEGIC IMPORTANCE OF EUROPE'S SOUTHERN FLANK TO NATO AND THE WEST HAS BEEN DRAMATICALLY UNDERLINED BY EVENTS THIS PAST YEAR. HELPING THESE NATIONS ACQUIRE THE MATERIEL AND TRAINING NEEDED TO MEET EFFECTIVELY THEIR NATO RESPONSIBILITIES IS AN IMPORTANT CONTRIBUTION TO OUR COMMON DEFENSE, NOT ONLY

AGAINST THREATS TO NATO BUT AGAINST CHALLENGES TO OUR COMMON INTERESTS BEYOND THE GEOGRAPHIC BOUNDS OF THE ALLIANCE.

PORTUGAL AND SPAIN HOLD A STRATEGIC POSITION ALONG THE PRINCIPAL LINES OF ACCESS TO EUROPE AND THE MIDDLE EAST/SOUTHWEST ASIA. THE PORTUGUESE, WITH THE AID OF THEIR ALLIES, ARE DETERMINED TO PLAY A LARGER ROLE IN NATO AND IN THE DEFENSE OF WESTERN INTERESTS. BASING FACILITIES IN PORTUGAL ARE KEY TO NATO REINFORCEMENT, ASW OPERATIONS AND POSSIBLY OUT OF AREA CONTINGENCIES. THE FY 84 FMS/MAP REQUEST OF $105 MILLION WILL HELP PROVIDE A SECOND SQUADRON OF A-7P AIRCRAFT, THE START-UP OF AN ANTI-SUBMARINE WARFARE FRIGATE PROGRAM, AND INCREASED P-3 AND C-130 CAPABILITY. SPAIN'S DECISION TO JOIN NATO IS A HISTORIC MILESTONE ON THE ROAD TO THAT NATION'S FULL REENTRY INTO THE WEST EUROPEAN COMMUNITY. IT UNDERSCORES SPAIN'S DESIRE TO REINFORCE DEMOCRATIC INSTITUTIONS. OUR $400 MILLION FMS REQUEST SERVES TO SOLIDIFY PROGRESS IN THIS DIRECTION AND HELPS ENSURE THE ACCESS WE NEED TO BASES VITAL TO OUR OWN DEFENSE POSTURE.

IN OUR DEFENSE COOPERATION AGREEMENT WITH TURKEY, WE HAVE UNDERTAKEN TO ASSIST THE TURKISH ARMED FORCES IN THEIR EFFORTS TO MODERNIZE THEIR DANGEROUSLY OBSOLESCENT MILITARY INVENTORY. TURKEY IS OUTNUMBERED THREE TO ONE BY WARSAW PACT GROUND TROOPS, ARMED WITH THE MOST MODERN ARMAMENTS IN THE SOVIET ARSENAL GARRISONED IN THE NEARBY TRANS CAUCASUS AND TRACE. SIMILARLY, WARSAW PACT AIRCRAFT VASTLY OUTNUMBER TURKISH AIRCRAFT IN THE REGION. WE ARE REQUESTING $755 MILLION IN FMS/MAP TO HELP TURKEY PURCHASE A WIDE VARIETY OF EQUIPMENT INCLUDING SOME REPLACEMENTS FOR ITS OBSOLETE FIGHTER AIRCRAFT. THE USE OF MAP FUNDS WILL LIMIT THE IMPACT OF THIS LARGE PROGRAM ON TURKEY'S HEAVY DEBT SERVICE SCHEDULE. WE CANNOT UNDERSTATE TURKEY'S IMPORTANCE, STANDING AS IT DOES AT THE

INTERSECTION OF OUR NATO, SOUTHWEST ASIA, AND MIDDLE EAST STRATEGIES.

SECURITY ASSISTANCE DEMONSTRATES AMERICAN SUPPORT FOR A DEMOCRATIC GREECE WILLING AND ABLE TO FULFILL ITS NATO RESPONSIBILITY AND TO HELP ENSURE POLITICAL STABILITY IN THE EASTERN MEDITERRANEAN. WE HAVE STRAIGHT-LINED THE GREEK PROGRAM BECAUSE BASE NEGOTIATIONS CURRENTLY ARE UNDERWAY. TO DO OTHERWISE WOULD COMPROMISE OUR ABILITY TO REACH A REASONABLE AGREEMENT. WE HAVE TOLD THE GREEKS, HOWEVER, THAT WE ARE PREPARED TO REQUEST ADDITIONAL FUNDS IN THE CONTEXT OF A SATISFACTORY DEFENSE COOPERATION AGREEMENT.

WE INTEND TO COMMIT $1,790 MILLION IN SECURITY ASSISTANCE TO THE EUROPEAN SOUTHERN TIER STATES OF SPAIN, PORTUGAL, GREECE, TURKEY AND CYPRUS. BY PROGRAM THIS WILL CONSIST OF $230 MILLION IN ESF, $290 MILLION IN MAP, $1,250 MILLION IN FMS GUARANTIED LOANS, $11.7 MILLION IN IMET, AND $9 MILLION FOR THE U.N. FORCES IN CYPRUS. BY COUNTRY, IT WILL BE $12 MILLION FOR CYPRUS, $281.7 MILLION FOR GREECE, $148 MILLION FOR PORTUGAL, $415 MILLION FOR SPAIN, AND $934 MILLION FOR TURKEY.

SOUTHWEST ASIA

SOUTHWEST ASIA REMAINS THE CRITICAL SOURCE OF ENERGY FOR THE FREE WORLD. BROADLY DEFINED, THIS AREA STRETCHES FROM PAKISTAN IN THE EAST TO MOROCCO IN THE WEST. ALMOST ALL THESE COUNTRIES FACE SEVERE ECONOMIC PROBLEMS AND POTENTIAL SUBVERSION OR REGIONAL THREATS, IN MANY CASES SUPPORTED BY THE SOVIETS OR THEIR PROXIES.

OUR FIVE YEAR PROGRAM OF MILITARY MODERNIZATION AND ECONOMIC ASSISTANCE WILL HELP PAKISTAN TO MEET THE SOVIET THREAT FROM AFGHANISTAN AND FACILITATE THE ECONOMIC DEVELOPMENT

ESSENTIAL TO INTERNAL STABILITY. OUR RENEWED STRATEGIC RELATIONSHIP WILL HELP DETER FURTHER ACTIONS BY THE SOVIETS AND SUPPORT PAKISTANI RESOLVE TO CONTINUE TO OPPOSE SOVIET AGGRESSION IN AFGHANISTAN. A PAKISTAN MORE CONFIDENT OF ITS SECURITY HAS LESS NEED FOR AND MOTIVATION TO DEVELOP NUCLEAR EXPLOSIVES. THE $300 MILLION FMS REQUEST WILL BE USED FOR PROGRESS PAYMENTS ON THE $1.7 BILLION PACKAGE OF MILITARY ASSISTANCE ALREADY UNDERWAY INCLUDING F-16 AIRCRAFT. AS YOU KNOW, THE FIRST SIX F-16s RECENTLY ARRIVED IN COUNTRY AND THE REACTION WAS OVERWHELMINGLY POSITIVE FOR U.S.-PAKISTAN SECURITY RELATIONS.

SUDAN, MOROCCO AND TUNISIA ALL FACE THREATS OF SUBVERSION OR AGGRESSION EMANATING FROM OR SUPPORTED BY LIBYA. SUDAN ALSO FACES A SIGNIFICANT POTENTIAL MILITARY THREAT FROM ETHIOPIA. THESE COUNTRIES HAVE DIFFICULT ECONOMIC PROBLEMS. GRANT U.S. ASSISTANCE IS NEEDED TO ENHANCE MILITARY PREPAREDNESS WITHOUT ADDING TO ALREADY EXCESSIVE ECONOMIC BURDENS.

GIVEN OMAN'S STRATEGIC LOCATION ON THE STRAIT OF HORMUZ AND CLOSE COOPERATION ON REGIONAL SECURITY ISSUES, WE PUT HIGH PRIORITY ON IMPROVING ITS DEFENSE FORCES. THE YEMEN ARAB REPUBLIC, STRATEGICALLY LOCATED ON THE BAB EL-MANDEB STRAITS AND THE SOUTHWEST FLANK OF SAUDI ARABIA, FACES A WELL-ARMED, MARXIST-LED INSURGENCY SUPPORTED BY SOUTH YEMEN AND LIBYA. WITH A DETERIORATING ECONOMIC SITUATION, THIS COUNTRY REQUIRES BOTH DEVELOPMENT AND SECURITY ASSISTANCE TO ENABLE IT TO MAINTAIN ITS INDEPENDENCE AND STABILITY.

ALSO ALONG THE INDIAN OCEAN LITTORAL, IN BOTH KENYA AND SOMALIA, WE SEEK TO ENCOURAGE ECONOMIC SELF-RELIANCE AND THE DEVELOPMENT OF DEFENSE CAPABILITIES CONSISTENT WITH ECONOMIC

REALITIES. BOTH NATIONS COUNT AS KEY FEATURES IN OUR OWN DEFENSE PLANNING FOR THE REGION AND SOMALIA FACES CONTINUING PRESSURE FROM ETHIOPIAN BORDER ATTACKS. OUR AID TO THE ISLAND STATES HELPS MAINTAIN U.S. ACCESS AND INFLUENCE IN THE INDIAN OCEAN.

WE PLAN TO COMMIT SOME $1,188 MILLION TO SECURITY ASSISTANCE FOR THE 12 COUNTRIES WHOSE COOPERATION WE CONSIDER ESSENTIAL TO OUR SOUTHWEST ASIA POLICY. PROGRAMMATICALLY, THIS WILL INCLUDE $451 MILLION IN ESF, $220 MILLION IN MAP, $507 MILLION IN FMS GUARANTIES, AND $10.15 MILLION IN IMET. THE MAJOR COUNTRY PROGRAMS ARE PAKISTAN AT $525.8 MILLION, SUDAN AT $181.5 MILLION, TUNISIA AT $141.7 MILLION, MOROCCO AT $98.7 MILLION, KENYA AT $78.65 MILLION, SOMALIA AT $76 MILLION AND OMAN AT $60.1 MILLION.

RESTORING STABILITY AND PROGRESS IN THE CARIBBEAN BASIN

WE FACE A MAJOR CHALLENGE IN THE CARIBBEAN BASIN, WHERE CUBA HAS SOUGHT TO EXPLOIT SOCIO-ECONOMIC PROBLEMS AND MILITARY VULNERABILITIES. THE FY 1982 CBI SUPPLEMENTAL WAS NEVER INTENDED TO CURE ALL PROBLEMS; WE MUST CONTINUE TO PROVIDE RESOURCES UNTIL INCREASED INVESTMENT, A STRENGTHENED PRIVATE SECTOR, AND EXPANDED EXPORT MARKETS ENABLE THESE COUNTRIES TO ACHIEVE MORE ECONOMIC SELF-SUFFICIENCY.

EL SALVADOR, WHERE THE GUERRILLAS SEEK TO DESTROY THE ECONOMY AND TAKE OVER THE GOVERNMENT, WOULD BE THE LARGEST SINGLE RECIPIENT OF BOTH ECONOMIC AND MILITARY ASSISTANCE IN THE CARIBBEAN BASIN. THE SALVADORAN ECONOMY HAS BEEN IN SHARP DECLINE SINCE 1978; IN REAL TERMS THE VALUE OF GOODS AND SERVICES PRODUCED NOW IS ESTIMATED TO BE 25 PERCENT BELOW 1978. WE HAVE ALLOCATED $140 MILLION IN ESF FOR FY 83 AND ARE REQUESTING $120 MILLION FOR FY 84 IN AN EFFORT TO RESTORE

PRODUCTION IN WHAT WAS ONE OF LATIN AMERICA'S MOST EFFICIENT ECONOMIES. HONDURAS FACES A SEVERE ECONOMIC DECLINE AND A LARGE MILITARY BUILDUP IN NEIGHBORING NICARAGUA. COSTA RICA'S RAPIDLY DETERIORATING ECONOMY WILL REQUIRE SUBSTANTIAL ASSISTANCE WHILE FUNDAMENTAL REFORMS ARE EFFECTED. JAMAICA WILL CONTINUE TO NEED SUBSTANTIAL ASSISTANCE IN ORDER TO RESTORE THE VITALITY OF ITS PRIVATE SECTOR. BECAUSE OF DETERIORATING CONDITIONS, OTHER COUNTRIES IN THE REGION, INCLUDING GUATEMALA AND THE DOMINICAN REPUBLIC, REQUIRE SUBSTANTIAL AMOUNTS OF ECONOMIC ASSISTANCE. WE ARE PROPOSING A NEW FMS PROGRAM FOR GUATEMALA IN FY 84 BECAUSE OF THE IMPORTANCE OF GUATEMALA IN CENTRAL AMERICA, THE THREAT THE COUNTRY FACES, AND THE PROGRESS BEING MADE IN IMPROVING HUMAN RIGHTS.

$50 MILLION OF THE REQUESTED MAP APPROPRIATION WOULD REIMBURSE THE U.S. SERVICES FOR THE REMAINING DRAWDOWNS OF DEFENSE ARTICLES AND SERVICES FOR EL SALVADOR PURSUANT TO SECTION 506 OF THE FOREIGN ASSISTANCE ACT.

UNDER THE SECURITY ASSISTANCE RUBRIC, WE EXPECT TO DEVOTE ABOUT $558 MILLION TO CBI COUNTRIES AND REGIONAL PROGRAMS. THIS WILL INCLUDE $398 MILLION IN ESF, $109.8 MILLION IN MAP, $45 MILLION IN FMS GUARANTIES AND $5.13 MILLION IN IMET FUNDS. THE MAJOR RECIPIENTS WILL BE EL SALVADOR AT $206.3 MILLION, HONDURAS AT $81 MILLION, COSTA RICA AT $72.15 MILLION, JAMAICA AT $59.2 MILLION, GUATEMALA AT $50.25 MILLION AND THE DOMINICAN REPUBLIC AT $45.75 MILLION.

OTHER STRATEGIC GROUPINGS

WE ALSO PROPOSE IN FY 1984, IN ADDITION TO THESE AREAS OF STRATEGIC CONCERN TO THE UNITED STATES, TO PROVIDE SECURITY

ASSISTANCE TO A NUMBER OF OTHER COUNTRIES IN TROUBLED PARTS OF THE WORLD.

OUR POLICY IN SOUTHERN AFRICA IS DESIGNED TO ADVANCE THE PEACE PROCESS IN NAMIBIA, ENSURE CONTINUED WESTERN ACCESS TO KEY STRATEGIC MINERALS, AND SUPPORT THE DEVELOPMENT PROCESS FROM ZAIRE TO THE CAPE. WE ARE COMMITTED TO ASSIST THE ECONOMIC DEVELOPMENT OF THE FRONT-LINE STATES IN SOUTHERN AFRICA, WHOSE PARTICIPATION IS ESSENTIAL TO THE RESOLUTION OF CONFLICT THERE. THE ALTERNATIVE -- A NEW ESCALATION OF CONFLICT -- WOULD PROVIDE SIGNIFICANT NEW OPPORTUNITIES FOR THE CUBANS AND THE SOVIETS. WE SEEK $181 MILLION IN SECURITY ASSISTANCE FOR THIS REGION.

ADEQUATE AID IS ESSENTIAL TO MAINTAIN PEACE AND STABILITY IN WESTERN AFRICA, WHERE FINANCIAL DIFFICULTIES RISK EXPLOITATION BY LIBYA. WE PROPOSE MODEST NEW ESF PROGRAMS FOR TWO THREATENED, STAUNCHLY PRO-WESTERN COUNTRIES, SENEGAL AND NIGER. OUR AID TO LIBERIA IS DESIGNED TO ADDRESS ITS IMMEDIATE FINANCIAL CRISIS, STIMULATE LONG-TERM DEVELOPMENT, ENSURE CONTINUED U.S. ACCESS TO KEY TRANSPORTATION AND COMMUNICATIONS FACILITIES, AND FACILITATE THE RETURN TO CIVILIAN GOVERNMENT IN 1985. OUR ASSISTANCE ELSEWHERE IN WEST AFRICA IS LIMITED TO FMS LOANS IN CAMEROON AND GABON AND TO 14 IMET PROGRAMS.

THE PRESIDENT'S RECENT TRIP TO LATIN AMERICA UNDERSCORED AMERICA'S COMMITMENT TO PLAY A MAJOR ROLE IN ADDRESSING THE KEY PROBLEMS OF OUR NEIGHBORS TO THE SOUTH. IN FURTHERING OUR STRATEGIC AND NATIONAL SECURITY INTERESTS IN THE SOUTHERN PART OF THE HEMISPHERE, WE ARE SEEKING $51 MILLION PRIMARILY FOR FMS GUARANTIED LOANS TO PERU, COLOMBIA AND ECUADOR.

IN CONCLUDING THIS PORTION OF MY REMARKS, I WOULD EMPHASIZE THAT NONE OF THESE FIGURES IS INTENDED TO SET A CASH VALUE ON THE RELATIONSHIP BETWEEN THE UNITED STATES AND THE RECIPIENT COUNTRY. NOR DO THEY IN ALL CASES INDICATE THE TOTAL AMOUNT OF ASSISTANCE WE PROPOSE TO PROVIDE, AS MANY WILL RECEIVE VARIOUS OTHER TYPES OF DEVELOPMENT ASSISTANCE AS WELL. OUR SECURITY ASSISTANCE BUDGET PROPOSAL IS, I BELIEVE, CAREFULLY CRAFTED TO MOVE US TOWARD A VARIETY OF STRATEGIC OBJECTIVES AT MINIMUM EXPENSE TO THE AMERICAN TAXPAYER.

FY 1984 LEGISLATIVE PROPOSALS

SECRETARY SHULTZ TRANSMITTED OUR FY 1984 LEGISLATIVE PROPOSALS TO THE CONGRESS ON FEBRUARY 22 AND I UNDERSTAND THEY HAVE BEEN REFERRED TO THE FOREIGN RELATIONS COMMITTEE. I WOULD LIKE, HOWEVER, TO DISCUSS TWO PROPOSALS WHICH ARE OF PARTICULAR INTEREST TO THE SUBCOMITTEE. GENERAL GAST WILL ADDRESS SEVERAL OTHER PROVISIONS.

THE FIRST OF THESE DEALS WITH EARMARKING. EARLIER I MENTIONED THE IMPACT THAT EARMARKING IN LEGISLATION HAS ON OUR ABILITY TO ALLOCATE AVAILABLE FUNDS TO MEET PRIORITY OBJECTIVES. THE MOST SERIOUS PROBLEMS ARISE FROM EARMARKS IN AUTHORIZATION AND APPROPRIATIONS LEGISLATION, WHICH ASSUME AVAILABILITY OF THE FUNDS AUTHORIZED IN THAT BILL. WHEN THE WORLDWIDE AVAILABILITY FOR ESF OR MAP IS REDUCED, OFTEN SEVERELY IN A CR, WE MUST NONETHELESS FUND SPECIFIC COUNTRIES AT THE FULL AMOUNTS EARMARKED. THIS CREATES SERIOUS DISTORTIONS IN COUNTRY ALLOCATIONS, OFTEN UNINTENDED, BY FORCING DISPROPORTIONATELY SEVERE CUTS IN UNEARMARKED COUNTRY PROGRAMS.

TO HELP DEAL WITH THIS PROBLEM, THE ADMINISTRATION IS PROPOSING ENACTMENT OF A PROVISION THAT WOULD REDUCE EARMARKS.

WHEN OPERATING UNDER A CR, TO THE SAME PROPORTION OF THE TOTAL FUNDS AVAILABLE UNDER THE CR AS THE ORIGINAL EARMARK WAS TO THE TOTAL FUNDS AVAILABLE FOR THE RELEVANT ACCOUNT IN THE LAW WHICH ESTABLISHED THE EARMARK. WE RECOGNIZE, MR. CHAIRMAN, THAT THE CONGRESS MAY NOT AUTHORIZE AND APPROPRIATE ALL THE FUNDS THAT HAVE BEEN REQUESTED. WHEN FUNDS ARE REDUCED, HOWEVER, EARMARKING PLACES US IN A STRAITJACKET WHICH PREVENTS RATIONAL COUNTY ALLOCATIONS. THE COMBINATION OF LOWER FUNDING AND EXTENSIVE EARMARKS IS DEVASTATING. THIS PROPOSAL PROVIDES DESIRABLE FLEXIBILITY WITHOUT UNDERMINING CONGRESSIONAL INTENT.

SECONDLY, WE ARE PROPOSING TO MODIFY CERTAIN PROVISIONS REGARDING NOTIFICATION TO CONGRESS OF PROGRAM CHANGES. WE PROPOSE TO ELIMINATE THE REQUIREMENT IN SECTION 634A OF THE FOREIGN ASSISTANCE ACT TO NOTIFY CONGRESS 15 DAYS IN ADVANCE OF OBLIGATING FUNDS IN CASES WHERE OBLIGATION WILL EXCEED THE PRIOR AMOUNT JUSTIFIED FOR THE YEAR BY 10 PERCENT OR LESS. THIS CHANGE WILL PERMIT NEEDED FLEXIBILITY TO REALLOCATE FUNDS AT THE END OF THE FISCAL YEAR WHILE NOT ALLOWING SIGNIFICANT CHANGES WITHOUT PRIOR CONGRESSIONAL NOTIFICATION.

WE ALSO PROPOSE TO ESTABLISH A THRESHOLD OF $50,000 ON REPROGRAMMING NOTICES TO THE CONGRESS FOR INTERNATIONAL NARCOTICS AND IMET PROGRAMS. THIS PROVISION WILL PERMIT PROMPT EXECUTION OF SMALL BUT POLITICALLY SENSITIVE TRAINING PROGRAMS AND WOULD PROVIDE A FAST REACTION CAPABILITY AGAINST ILLICIT NARCOTICS EFFORTS. WE WOULD NOT BEGIN PROGRAMS FOR COUNTRIES NOT PREVIOUSLY JUSTIFIED TO THE CONGRESS, EVEN IF THE AMOUNT IS BELOW THE THRESHOLD, WITHOUT TRANSMITTING REPROGRAMMING NOTICES TO THE CONGRESS.

BOTH OF THESE CHANGES TO REPROGRAMMING AUTHORITIES WILL REQUIRE COLLATERAL ACTION IN APPROPRIATIONS LEGISLATION TO BE

EFFECTIVE. I STRONGLY URGE THAT THIS SUBCOMMITTEE INCORPORATE THEM IN THE GENERAL PROVISIONS THAT DEAL WITH REPROGRAMMING.

MR. CHAIRMAN, WE ARE PRESENTING YOU WITH SEVERAL PROPOSALS -- TWO FY 1983 SUPPLEMENTALS PLUS THE REGULAR FY 1984 BILL. WE REQUEST YOUR URGENT AND CAREFUL CONSIDERATION OF THEM. THESE BUDGETARY REQUESTS HAVE BEEN SCRUTINIZED THOROUGHLY WITHIN THE ADMINISTRATION AND MEET ALL OF OUR ESSENTIAL CRITERIA IN A VERY TIGHT BUDGET YEAR. IN CONCLUSION, I ASK YOU TO CONSIDER NOT ONLY THE COSTS OF PROVIDING THE REQUESTED ASSISTANCE, BUT ALSO THE COSTS OF NOT PROVIDING IT.

STATEMENT OF LT. GEN. PHILIP C. GAST

Senator KASTEN. General Gast, do you have any additions or comments?

General GAST. No, sir. I have a talking paper before you, Mr. Chairman. I would only add that in the statement here the Joint Chiefs of Staff, our Commanders in Chief, and Secretary of Defense all, of course, suppport the need for the security assistance for the reasons stated there, and add that we are and would be very hopeful to work with the committees on some of our legislative initiatives.

We are very appreciative of your assistance and the subcommittee's on SDAF. We are looking for continued growth of that program, particularly in 1984 where we are asking for $325 million obligation authority. We also would like to work for some help on the reprograming for IMET, which we think will be more efficient and, last but not least, there are some other initiatives to include the need to help out our MAAG's and our military missions around the world on expenses that are now coming out of pocket. This would require additional authorization to use administrative surcharge money.

That is all I have, sir.

[The prepared statement of General Gast follows:]

PREPARED STATEMENT OF LT. GEN. PHILIP C. GAST

Introduction

- Thank you, Mr. Chairman.

- Secretary Schneider has just summarized the Administration's request for an FY 83 supplemental, the Special Supplemental for Lebanon and for the FY 84 request. Defense fully supports these requests.

- I would like to take this opportunity, in my brief remarks, to highlight a few areas of interest to this committee:

First, the Importance of Security Assistance to National Defense

- The broad objectives of security assistance for our friends and allies

  - To provide for mutual defense support and cooperation in deterring Soviet aggression or aggression by Soviet-supported forces.

  - And, to help countries maintain their external security and internal stability, which helps them to preserve their independence and contribute to regional stability.

- Our assistance is also designed to complement and support our own defense efforts. These programs help:

  - Maintain foreign bases,

  - Gain and retain access to overseas military facilities,

  - Strengthen our coalition war-fighting capability and our collective security arrangements with friends and allies, and

  - Improve the security capabilities of other friendly countries, in turn strengthing our own security.

  - There is no less expensive or more cost-effective way of improving our defense posture, and our foreign assistance helps others share with the us the burden of defense in our increasingly troublesome world.

  - Security assistance is, in essence, the overseas counterpart of our defense efforts.

- In addition to these primary strategy benefits, these are some modest, but clearly secondary, domestic benefits.

  - Our programs do not have a negative impact on the U.S. economy.

  - A recent Bureau of Labor Statistics report concluded that FMS deliveries of between $5-$10 billion require between 200,000-300,000 private sector jobs

  - They also generate some cost savings for the three Armed Services.

Legislative Initiatives

- We strongly support all of the Security Assistance Legislative Initiatives, but for the sake of brevity, I will comment on two I consider especially urgent:

  - As you know, our representatives overseas have both a professional and a social role in their relationship with host counterparts.

- To be effective, these social functions and obligations cannot be ignored. They must be given more attention

- Despite rising costs and the increased importance of our country programs, representational funds have been declining in real terms.

- In fact, we estimate that between 30 and 40 per cent of the costs of representational functions are now being paid from personal funds of our people.

- The proposal does not require additional appropriations, but only authorization for us to use surcharge funds to implement.

• We have also resubmitted the proposal to establish a threshold on IMET reprogramming notices.

- This is important to us, especially at the end of the year when some countries decide not to use funds, and we can shift them to another country which can.

- We could not start new IMET programs under this provision.

(506(a) Reimbursement

• Another request in the President's budget is to reimburse the Department of Defense for past emergency drawdowns of defense items under section 506(a) FAA authority.

- $75 million in defense articles and services were drawn down to meet past emergencies,

- We are now seeking to reimburse the Defense Department in both the FY 83 Supplemental and in the FY 84 request

  -- $25 million in the FY 83 supplemental, and

  -- $50 million in the FY 84 request

  -- These are MAP funds in both requests

- The Services, from whom the defense articles and services were taken, cannot be expected to carry the burden on these emergency drawdowns.

Special Defense Acquisition Fund (SDAF)

• Finally, I want to draw your attention to the importance we attach to the Special Defense Acquisition Fund.

- We appreciate the initial obligational authority provided in the FY 82 Supplemental

- Mr. Chairman, I want to thank you and the Commitee personally for your efforts on behalf of the SDAF. Without your efforts, we would not be in as favorable a position on SDAF as we now are.

- These funds - $125M in both years - provide a useful base for making the SDAF an effective instrument of national security.

- Most of the FY 82 funds were placed on contract during the very limited time available after passage of the 82 Supplemental:

  -- $84.4M for a complete M60A tank package of 54 tanks with ammunition.

  -- The rest for I-TOW missiles ($7.1M), TV MAVERICK missiles ($5.9M), and two TPS-70 radar packages ($13.8M)

  -- Owing to production lead time, none of these items will be available for another year

- The FY 83 procurement plan should be completed by the end of March and most of the funds will be used for acquiring items we were not able to put on contract in FY 82 because of the limited funds available.

- Though FY 1984, the Congress has authorized a cumulative $900M capitalization for SDAF

- Our FY 84 request is for $325M in obligational authority. If approved, this would bring the SDAF program up to about 64% of the approved $900 million capitalization level.

- To have a truly effective SDAF, we need to have greater authority to obligate funds already capitalized.

  -- The availability of high demand items is short,

  -- Long leadtimes are required between placing items on contract and having them available for foreign sale. And lead times are growing longer. The sooner we are able to put out contracts on selected items, the sooner these items will be available to us.

- Otherwise, production diversions and drawdowns from U.S. military stocks will be required to meet urgent foreign requirements.

- As I mentioned before, the items put on contract in FY 1982 won't be available for foreign sale for at least one

- We take long-range planning seriously, we want to minimize the adverse effects of sudden drawdowns on U.S. readiness, and we hope to be responsive to the urgent needs of our friends and allies. Greater obligational authority is necessary.

- The $325M in the FY 84 request is a step in that direction.

- These funds do not come from the pockets of the American taxpayer--they come from past FMS sales.

Thank you very much. I will be happy to answer any questions you may have.

EL SALVADOR

Senator KASTEN. Bill, I am sure you are aware of the reports in the paper that said a senior Presidential aide told reporters on Air Force One that the President is considering raising the number of United States military advisers in El Salvador, and that the role of those advisers is under review. I don't know when they say the role of these advisers is under review if that means that these people would be allowed to go into combat zones as some have speculated.

Can you tell us if these reports are accurate, does the administration intend to raise the number of advisers, and do you anticipate that the advisers would be allowed to go into combat zones?

Mr. SCHNEIDER. The information that I have is that, in the first instance, every dimension of any changes made in our program in Central America is going to be the subject of congressional consultations during the course of the coming week or so, in response to the meeting that the President had with the congressional leadership yesterday.

Second, there is no suggestion known to me that U.S. personnel in El Salvador would have any combat role whatever. There has been some discussion of possibly increasing the number of U.S. trainers if there were a more ambitious training program, but there is no suggestion that I have seen surfaced anywhere that would involve increasing the number or having any U.S. personnel dedicated to participation in combat activities in El Salvador.

MIDDLE EAST

Senator **Kasten**. What do you think would be the reaction in the Mideast if Congress approved the administration's request levels, particularly for Israel which effectively cuts the level of aid going into the Mideast and going into Israel, if the administration's requests are below what was provided 1 year ago?

You indicated in your statement that the administration's request for Israel is based on what you say is our assessment of need. It is my understanding that others have come up with much higher numbers. How specifically do you differ with the white papers and other documents which are being provided not only from Israel, but I am told by even some other sources suggesting that we need to at least maintain the present level and possibly even increase it?

Mr. **Schneider**. First, with respect to the administration's proposal with respect to Israel. I think a little reviewing of the history is appropriate in this regard. In fiscal 1983, the administration requested $500 million in forgiven funds for Israel. Our fiscal 1984 request increased the amount of forgiven resources from $500 million to $550 million. The additional funds were provided by the Congress in its deliberations on the fiscal 1983 budget that changed the proportion of grants and loans to, in effect, increase the onbudget grant portion. This, we appreciate, was the judgment of the Congress, and we, of course, are implementing the program as requested. However, we regard our basic analysis of the needs of Israel to be properly met within the context of our worldwide resources.

Now, with respect to the second part of the set of points that you made, I know there are a number of alternative characterizations of Israel's requirements. Without having knowledge of the specific paper to which you refer, there are cases that I have heard, for example, of arguing for higher levels of assistance to be coupled to Israel's level of debt service payments, for example, and that certainly can be characterized as an economic need that Israel faces.

But looking at the problem on a Government-wide basis where we have foreign military sales guaranteed loans outstanding, we have generally not sought to tie levels of ESF, for example, to debt service and have been trying to leave these as entities to be connected independently. Otherwise, if the Congress wanted to do things that way, then it probably would be more appropriate to have the FMS guarantee program be more overtly on a grant basis.

So, as I say, I appreciate that the Congress has at least in the past had a somewhat different view on this, but I think in the context of the entire worldwide resource situation that we would ask you to look at our request in that light.

ISRAELI NEEDS

Senator **Kasten**. Your assessment of the needs of Israel and of the balance in the Mideast was obviously made before the revelation in just the last couple of days of Soviet missiles in Syria, and the Secretary of State yesterday agreed with my statement, manned by Russians and which are within striking distance not only of Tel Aviv, but also of Beirut and other places, which changes, it seems to me, the situation.

First of all, how do you view the presence of the long-range missiles? Is there cause for concern and would their presence lead you to argue for an increase in U.S. assistance to Israel?

Mr. **Schneider**. Well, I think as the Secretary indicated yesterday, the Soviet introduction of the SA-5 missiles into Egypt is a dangerous and provocative act. The dangerous and provocative character of it is underscored by not so much the effectiveness of those particular systems, that is, I believe, with the resources that the Israelis currently have they would not have substantial difficulty as a military matter in coping with the SA-5 missiles, but what is provocative about it is the introduction of substantially more Soviet personnel in Syria and, second, the fact that we don't know if this might not be the first part of a much larger program of Soviet involvement in the region.

So in direct answer to your question, I would not argue that the SA-5's in and of themselves increase the threat beyond that with which the Israelis would be able to cope, but we are certainly watching the situation very carefully. If this was the leading edge of a much larger effort on the part of the Soviets to intrude its presence into Syria, then that judgment could change.

SOUTHERN EUROPE

Senator **Kasten**. What would be the result if Congress refused to provide the additional moneys sought in the 1984 request for Turkey, and what are your comments on the concerns that are expressed by some that that large increase could be harmful to some of Turkey's neighbors, particularly Greece?

Mr. **Schneider**. It is a good question, and I think this is something that should be fully explored.

First, I think we ought to review our strategic interests in Turkey. In addition to Turkey being a member of NATO, its geographic position is particularly crucial for American security interests which have evolved over the course of the past several years.

Looking back historically for a bit, I think it is clear that for most of the past three decades, the principal thrust of Soviet interest was focused in two strategic zones, one in Western Europe where most of their military resources were directed, and the other in the Western Pacific, where they had a substantial presence in the Soviet Far East. In response to this, the United States evolved a pattern of alliances and bases, and infrastructure to support military operations in these two strategic zones, in a manner that enabled us to frustrate Soviet ends and preserve the nations of Western Europe and the Western Pacific as free countries with prosperous economies, with basically beneficial consequences that have emerged from that process.

But some things changed during the latter part of the seventies. Specifically, Soviet policy changed from having its exclusive focus on these two strategic zones to a more southward looking focus, that is the thrust into Central Africa and Angola in 1974 and 1975, into the Horn of Africa, specifically Ethiopia, in 1978, and in 1979 the thrust into Afghanistan. This basically opened up what one could describe as a third strategic zone. This strategic zone has its most important focus in what we describe in the large as Southwest Asia, and it is in this regard that Turkey is particularly important. The location of Turkey at the Southeastern extreme of Europe also extends into what would be the key staging area for a Soviet invasion of the Persian Gulf, that is in the Trans-Caucasus region, where Soviet military power has been built up substantially since the fall of the Shah. So, our strategic interest is involved, not only in being able to make Turkey a more effective member of NATO for its traditional tasks in supporting NATO contingencies on the southern part of the European Continent, but also because it places at risk, and thereby deters Soviet military adventures coming out of the Caucasus region into the northern Persian Gulf. That is a fairly lengthy geopolitical description, I appreciate, but I think it is important to understand why there has been such an intense effort by this administration to build up the armed forces of Turkey.

Now, with respect to the second part of your question about Greece, I think it is important to understand that the numbers that we proposed in the 1984 budget for Greece represented simply a continuation of the 1983 number because we were in the process of negotiating a new defense and economic cooperation agreement with Greece. It was simply a matter of negotiating tactics. Were we to put our desired figure in the fiscal 1984 budget, that would become the floor for the negotiations, and it would simply ratchet up the resulting negotiations. So, when we get an acceptable defense and economic cooperation agreement, we will come back to the Congress for the resources necessary to support it. We think that it will result in a program that will meet our security needs in the southern region both with respect to the Greek and Turkish programs.

GREEK BASE NEGOTIATIONS

Senator KASTEN. Could you comment on those negotiations briefly? I know that some of it you might not be able to share with us today, and specifically the administration's view of what I see as a growing congressional concern of the anti-American statements that are coming from Greece, and also how do you evaluate the change in Cyprus with the Communist participation?

Mr. SCHNEIDER. Well, first, with respect to the Greek base negotiations, Ambassador Bartholomew, our negotiator, has been in Washington for the past couple of weeks for consultation with the administration over the course of these negotiations and he, during the course of these discussions, has reviewed the content of the negotiations so far which lends a substantial base of encouragement for the notion that we will be able to successfully negotiate a new defense and economic cooperation agreement with Greece.

We are concerned about the inflammatory statements that are sometimes made because they tend to be at cross-purposes to the mutual interests of the alliance, but we think that this is a temporary or passing phase in Greek attitudes toward NATO participation. We think the long-term interest of Greece will emerge in the course of these negotiations, and they will support a viable and sustainable agreement.

With respect to Cyprus, without commenting specifically on the politics in the country, we are trying to encourage the parties to reach some sort of an agreement that will remove the thorn that the Cyprus situation is in the side of improved relations in that part of NATO. The Secretary was asked about this in his testimony before the Senate Foreign Relations Committee, and indicated that it is and will remain a priority of ours to encourage a settlement of the Cyprus dispute.

TURKEY

General GAST. Mr. Chairman, may I add a comment on Turkey, please?

Senator KASTEN. Yes.

General GAST. Aside from what Dr. Schneider has said, the state of obsolescence of the equipment in Turkey has to be a major concern. For years they have not had a modernization program; many of the U.S. weapons systems were provided 20 and 30 years ago and that kind of technology is rapidly becoming unsupportable. Aircraft are being grounded, artillery is going to be nonsupportable in a few years, their Navy is in a desperate condition, as well as their armor.

We were able to make a modest beginning under the previous programs on some of the things like modernization or upgrade of a few of their tanks, but I think the urgency this year is that there is much to do and it is of great importance to begin modernization of the Turkish Armed Forces.

LEBANON PEACEKEEPING COSTS

Senator KASTEN. The committee has not received any request to pay for the expenses of the U.S. peacekeeping forces in Lebanon. Normally, those expenses in one way or another are covered by funds that we appropriate. How are those expenses being met right now?

General GAST. I assume, sir, that they are out of O&M.

Mr. SCHNEIDER. We will get you an answer to that.

Senator KASTEN. We don't know either, but I was interested in it, particularly as there seems to be increasing level of U.S. commitment which seems to be somewhat different than we might have anticipated in the beginning.

[The information follows:]

U.S. FORCES IN LEBANON

The expenses of U.S. forces in Lebanon are being met out of Department of Defense Operations and Maintenance funds.

EARMARKS

Senator KASTEN. I understand that you are requesting legislation which would have the effect of overturning earmarks in even future appropriations legislation. If this is true, I want to suggest that this kind of a proposal would create an institutional stir both here and in the other body.

I would suggest that rather than putting that kind of a proposal in permanent law, that if a problem arose in the context of the continuing resolution, that relief might be requested within that continuing resolution for specific problems, and that we do not fight a battle which would change permanent law. I just do not think that the Appropriations Committee is interested in having that kind of permanent legislation, and I think it is a battle, at least in my opinion, that we might be able to avoid.

Mr. **Schneider**. Well, I will take your point in future continuing resolutions. If that is the attitude of the Congress, we will do it. What we had proposed was not specifically overturning earmarks, but being able during the course of the implementation of the continuing resolution to have them be proportionate to the total resources provided so that when the regular bill came we could earmark at the level specified by Congress. But in the excruciating period between the moment when a continuing resolution is passed and when a regular bill is voted, it would provide a measure of relief to be able to manage our resources on a worldwide basis. We will continue to consult with the Congress on this particular legislative proposal and I appreciate your comments.

COST OF TRAINING

Senator **Kasten**. Your written statement puts dollar figures to the argument that military assistance is a less expensive way of furthering our U.S. security needs because equipping soldiers and armies of other countries is significantly cheaper than it would be to have U.S. soldiers or U.S. armies there in place.

What about the quality of those soldiers or those armies?

Mr. **Schneider**. Well, an important part of an effort to equip forces is also to provide training, that is to affect the quality as well as the quantity. Although training is relatively inexpensive compared to equipping or manning forces, it is the crucial coupling between the mere static existence of those forces and the ability of the forces to be effective. So virtually all of our security assistance requests are coupled with some element of training so that we can make the best use of it.

Perhaps General Gast would have something to add to that.

General **Gast**. I would add also the importance of a structured program so that countries can plan and not have starts and stops and to be able to absorb any sophisticated equipment we might want to provide.

In many cases within our requests and our funding levels we are talking about not sophisticated equipment, but things that will make the equipment that they have work and will gradually improve upon it so that the absorption can be handled in a methodical and well-planned way.

SPECIAL DEFENSE ACQUISITION FUND

Senator **Kasten**. General, can you give us a status report on the special defense acquisition fund [SDAF]? Is it operational yet and, if not, when will it be?

General GAST. It is operational, sir. Soon after the supplemental appropriation was passed in late 1982 we were able to get some 55 tanks and missiles to include Mavericks and a couple of radars on order. We were not able because of the short time remaining in fiscal year 1982 to fully obligate $125 million. Those programs are well underway. We are now looking at but have not decided what we will purchase with the $125 million that was authorized early this year in the CR. We believe it will be more or less a continuation of those sort of things but not necessarily those kind of items. The services are now making their inputs.

We have high hopes for SDAF. We have not sold any of those items except for some radios that were on order which we have been able to divert on something that rather unexpectedly came up for Spain. But we believe we have the right kind of procedures and the right kind of coordination. We understand the GAO will be taking a look at it, and we look forward to cooperating on that. We would like to have the obligation authority for $325 million of course for 1984.

Senator KASTEN. Senator Leahy.

EL SALVADOR

Senator LEAHY. I have a series of questions. I want to just start with one, and then I think we have what, about 6 or 7 minutes to vote.

The Secretary's defense authority under 506A, emergency funds, and I guess he has $75 million in there. He talked the other day of drawing down around $60 million of that for emergency aid to El Salvador. What is the status of that?

Mr. SCHNEIDER. At the President's request, officials of the administration have been asked to consult with senior Members of Congress about our concerns about the evolution of events in Central America and alternative ways in which we might respond. There are no specific proposals that relate to either specific funding levels or techniques by which the funds would be raised. This is something that will come out of our consultations with the Congress.

Senator LEAHY. Let me ask this. Has any of that 506A money been used in El Salvador in the past 6 months?

Mr. SCHNEIDER. There was some used in fiscal 1982, but I don't believe it was in the past 6 months.

General GAST. Not authorized by the President within fiscal year 1983.

Senator LEAHY. Is there any of it that you know of that is planned to be spent within the next 6 months? I know you talked about consulting on some, but is there that you definitely know that is planned to be spent within the next 6 months?

Mr. SCHNEIDER. The purpose of the 506A authority is to meet unanticipated needs. We don't have a program planned to use those funds.

Senator LEAHY. So the urgency that Secretary Weinberger expressed in his testimony a week or so ago, was that urgency overstated? My impression from news accounts was that he wanted to get that money in there as quickly as he could, that the situation was desperate and he said something to the effect we are going to get the money down there one way or the other.

Mr. **Schneider**. I wouldn't want to prejudice the case. The situation in El Salvador is serious. They are taking 12 percent casualties on an annual basis. They have ammunition shortages of a noteworthy amount, and I wouldn't prejudge a decision by the President on using 506A authority. At this point there is no specific plan to do so.

Senator **Leahy**. If we turn down your request here, would the 506A money be used, in your judgment?

Mr. **Schneider**. I have not had any conversations dealing with those kinds of contingencies, so I couldn't give you a specific answer on that, Senator.

Senator **Leahy**. Do you think the emergency is such that 506A truly should be considered?

Mr. **Schneider**. I think, under some circumstances, yes. For example, the ammunition stocks in El Salvador are extremely low and one could imagine some set of circumstances where one might want to use 506A simply to cope with an ammunition shortage, because I don't think we would like the conflict settled under circumstances where the folks we are supporting simply run out of bullets.

Senator **Leahy**. Mr. Chairman, I would like to reserve the rest of my questions of Mr. Schneider and take time to go up and vote.

Senator **Kasten**. We will adjourn for 5 minutes.

[A brief recess was taken.]

Senator **Kasten**. Senator Leahy.

Senator **Leahy**. Thank you, Mr. Chairman.

EL SALVADOR

Mr. Schneider, I have gone over your testimony and your statement before the Senate Foreign Relations Committee last week. I have also reviewed the testimony of Secretary Haig before this subcommittee last year to see if my memory served me correctly because one or the other of them sounded awfully familiar. I looked back at your statement and found that there were whole sections which were virtually word for word, if not word for word from Secretary Haig's statement of a year ago, especially on Central America. If this is a new environmental procedure employing recycling conservation measures, then it is commendable if that is what it is, however, there is another concern I have about it. I certainly don't mind each Secretary or Under Secretary or anybody else giving the same statement to us over and over again, but a lot has happened since last February.

I recall when the Secretary was here last year he was very optimistic about El Salvador. You may recall the elections and the military situation and so on. But 1 year later we are still having stories about continued killings such as the story of the massacre of the Indians a few days ago and the continued economic decline, the almost disastrous economic decline and the new reform program is not moving.

We hear that the military situation has deteriorated and the White House is discussing sending not only more military aid, which has been discussed up here before this subcommittee, but also sending more military advisers and perhaps changing the role of our military advisers, something which has created some questions.

But yet the statement that you give us is the same one that was given last year. It really hasn't changed. The situation has changed, but the statement hasn't changed. So I am trying to make sense of it.

Now, yesterday you heard the Secretary of State turn down every suggestion not only made by me but by other Senators on the committee for a diplomatic effort in this conflict. I asked him a couple of times to make sure I fully understood him, but he seemed to question the sincerity of the calls for dialog and reconcilation which were coming from Pope John Paul II, a person I would think whose sincerity would be beyond question and who begins his Central American visit tomorrow.

So we seem to have diplomatic initiatives rejected. We seem to have those initiatives that might take people out of the battlefield and into a political process. So it seems like we are putting all our cards on a military solution with more money, more men, and more involvement, and there seems to be public opposition to that. Certainly there is in the State of Vermont, according to press counselors around the country. Even leaders of the President's own party yesterday cautioned him about the request for more funds or advisers.

There is a news report I saw last night, and this reaches the point, that the real problem with the military effort in El Salvador is not the lack of more equipment or more military advisers, to cite the report on Nightline, but the problem of corruption in the military of El Salvador and the resistance to employ effective counterinsurgency tactics. They don't seem to want to leave the barracks.

Now, a number of us serve on different committees and that sounds very much like testimony that has been heard by Members of the Senate already.

So what is happening? We have had $1 billion nearly. Have we moved nowhere at all? I mean is the situation just to simply keep on sending more money? There is light at the end of the tunnel, and we are about to turn the corner. The church leaders say, Look for a dialog, what they are really trying to do is turn the place over to the Soviets. I mean is that really where we are?

Mr. SCHNEIDER. You have raised a number of very important points, and I would like to respond to two of the general points, and we can move on from there.

Senator LEAHY. Certainly.

Mr. SCHNEIDER. In the first instance, I think if you interpreted Secretary Shultz' statements to mean that we were discouraging any efforts toward reconciliation in El Salvador, I think that was a misunderstanding. For example, yesterday in El Salvador, the Peace Commission was sworn in, and that Peace Commission has as one of its fundamental purposes to seek to achieve reconciliation among the disputing factions in El Salvador.

Senator LEAHY. Incidentally, on that point I took the Secretary's word when he said his statement spoke for itself, and his statement does speak for itself. I am not going to interpret it. He made his statements and those are his statements.

Mr. **Schneider**. Well, then perhaps you could regard this as an amplification of the Secretary's statement in this regard.

Second, the Government of El Salvador is committed to holding an election in March 1984 or earlier, and it is in this process that there is an opportunity, for parties that have for one reason or another taken themselves out of the electoral process, to get back in, and we can have a device, that is, a democratic election, that would be designed to develop a fabric of consensus again, under democratic auspices, to try and achieve a peaceful resolution of the dispute.

ELECTIONS IN EL SALVADOR

Senator **Leahy**. Could I just answer on that point, on the 1984 elections. Doesn't that presuppose, however, some negotiation and dialog to even bring people into that electoral process? It is not like you or I, for example, going down and filing for election to the school board. It is a question, depending upon where you fit within the political spectrum, whether you are going to live through it.

A lot of people who have tried to get involved in the political process on either the right or the left have just gotten summarily murdered in the past couple of years. So, don't you require some negotiations and some safety factors and some pretty significant dialog along the lines of what the Archbishop has talked about before you can even assure the possibility of getting pluralistic candidacies?

Mr. **Schneider**. I think a historical perspective is useful in this regard. In going back to the elections that were held last year, the threats to participants in the election came from the guerrilla forces who chose, for whatever reason, not to participate in the election.

The prospect of whatever parties going in fear for their life in an election is something reasonable to be worked out. Perhaps the Peace Commission can be a vehicle for providing the modalities under which——

Senator **Leahy**. Well, do you think that is an adequate one?

Mr. **Schneider**. I think it remains to be seen how the Peace Commission will work. Certainly the prospects are there for it to be a satisfactory vehicle, but I think one shouldn't prejudge the outlook for this Commission by saying it could not contribute to a peaceful resolution.

Senator **Leahy**. Nobody is prejudging. I am asking the question of whether it could. You speak of putting it in a historical analysis. You talked about the threats being made during the voting last year and, like everybody else here, I abhored those threats. What about, however, the threats that have been made against people who want to be candidates, not just in the election itself, but those who want to be candidates to run for election, have there not been an awful lot of people threatened who have wanted to be candidates and in many instances just killed?

Mr. **Schneider**. I have heard allegations to this effect. I don't know to what extent they have been validated by people who are in a position to validate them. Really, I am not dismissing the concern. It is something that we need to be attentive to, because the whole idea behind using a democratic procedure is to have a free and fair process, in which people can participate without threats of intimidation. That would certainly be a critical element that we would seek to encourage.

MURDER OF U.S. NUNS

Senator **Leahy**. I do definitely agree with you that it is difficult to validate through the normal processes down in El Salvador who might have been involved. We have the killing, for example, of four nuns down there. The first, before we had public sessions, that I had an official briefing was at the State Department from a high official in the State Department—that perhaps the nuns were running a roadblock—which would bring about at least erratic driving insofar as their hands and feet were tied at the time that they were shot.

We then turned it over to the resources of the FBI and other intelligence agencies of the United States and gave what we thought was a good case to the Salvadoran officials, the Government there now duly constituted, and naught has come of it. So I agree with you that sometimes it is difficult, if we are going to just rely on their figures as to where it comes from.

But you have access to the same reports that I have and others have and certainly you do not mean to tell me that some of the people in Government down there now have not been very directly implicated in the killing and the torture and the murder of some of their political opponents.

Mr. **Schneider**. I wouldn't dispute that there might be complicity in parts of the establishment of government officials and military officials and so forth in the perpetration of crimes. I would say, however, that the improvement of the human rights situation in El Salvador is on the front burner of American concerns, because I think it is realized by the administration, as well as senior officials of the Government in El Salvador, that support for a regime that is as cruel and brutal as its opponents is not going to win the support of the public at large or the community of democratic nations. So I don't think we are under any illusions there. While we have to work on every single violation of human rights, we also should not overlook the fact that a very substantial improvement has taken place there. We should continue, I think, to be in a position where we are encouraging that, rather than seeking to continue to mete out punishment to the government and its people, who are making a very sincere effort to improve the situation.

HUMAN RIGHTS IN EL SALVADOR

Senator **Leahy**. Let me ask you this. After spending nearly $1 billion there in such a very few years, having military advisers down there declaring this to be the No. 1 foreign policy priority of the United States and so on, do you see a distinctive improvement in the human rights situation and, if so, how do you measure that?

Mr. **Schneider**. Yes; in a few respects.

First, owing to the efforts that we have made, through our own assistance program, as well as the encouragement that we have given the Government in El Salvador, I think there is no doubt that the situation has not only improved in absolute terms over what it was a few years ago, but in the absence of our presence it is almost certain that the human rights situation would have deteriorated in relative terms, which has not in fact been the case.

Second, we have contributed to instilling in the Government in El Salvador a sense of support for democratic institutions. They are on a path toward full-scale democratic institutions, under what have to be described as appallingly difficult circumstances.

If I may, I would like to couple this part of my response to the second part of your question about the military performance of the El Salvador Armed Forces. The fact that these circumstances are difficult is an understatement because I think one has to look a bit at the tactics that have been used by the guerrillas in El Salvador.

The guerrillas have followed the Leninist dictum of trying to make life impossible for ordinary people, by seeking to strike not so much directly at the military forces to try to defeat them on the field, although they have engaged them in substantial numbers, but to try and attack the civilian infrastructure, the road network, the bridges, the power facilities, water supplies, telephones and so forth, so that the ordinary citizen simply cannot function in any reasonable sense. As a consequence, the economic performance of the economy has declined.

One of the consequences of the kind of tactics that the guerrillas are using is forcing the armed forces into the static defense of fixed targets such as bridges and telephone and electric transmission lines and so forth. This kind of tactic is antithetical to the Salvadoran Armed Forces being more aggressive and taking the initiative. One of the things that we need to do in a military sense is to encourage the El Salvador forces to take the initiative because, ultimately, they are not going to be able to keep the guerrillas from being able to destroy these fixed economic targets.

QUALITY OF SOLDIERS IN EL SALVADOR

Senator **LEAHY**. Have there been times when we have tried and tried and tried and done everything possible to get them to move out and they have absolutely refused, not because they were guarding a static target or anything else, but almost a refusal of even leaving their barracks? Has that sort of situation occurred?

Mr. **SCHNEIDER**. Well, that has occurred with some of the forces, particularly those——

Senator **LEAHY**. It has occurred over and over and over again with some of the forces.

Mr. **SCHNEIDER**. Yes; but I think there is an important distinction to be made. In looking at the forces that have been U.S.-trained, that are trained to take the offensive and to go after the guerrillas, maintain contact with them and keep them away from populated areas, the performance of these units has been particularly good. These people have been taking 12 percent casualties on an annual basis. They are taking severe losses, and we should not conclude that these are poor soldiers or inadequate to the task.

The problem is one of simply giving the Salvadoran Armed Forces adequate training, so that they can do a good job, and equipping them so they can perform.

Senator **Leahy**. Does that require more American advisers?

Mr. **Schneider**. No; I don't believe advisers are an appropriate way to describe it. There is a distinction that we made between trainers and advisers. I wouldn't prejudge the notion that——

Senator **Leahy**. To require more American trainers then.

Mr. **Schneider**. Only if there was a desire to increase the number of people trained within a shorter period of time. There isn't any specific proposal that requires the introduction of more trainers. Considering the numbers that we have there now, the ceiling of 55 has not been met, on an average. We are operating with fewer than 55 trainers now.

Senator **Leahy**. That has required taking some people out and putting other people in. You are talking about the number that are in-country at one time.

Mr. **Schneider**. On the average basis, it is below 55; yes.

Senator **Leahy**. We have used more than 55 people; have we not?

Mr. **Schneider**. Oh, yes, because they are not in there permanently.

Senator **Leahy**. Would it improve their performance if American advisers or trainers, however described, actually went out to the combat with them?

Mr. **Schneider**. It wouldn't be necessary, to improve their performance.

STATUS OF U.S.-TRAINED TROOPS

Senator **Leahy**. Where are the U.S.-trained troops positioned now? Are they back at barracks, or are they out where they can actually engage guerrillas?

Mr. **Schneider**. They are at training facilities where the people are trained.

Senator **Leahy**. No, no, the U.S.-trained forces.

Mr. **Schneider**. Oh, U.S.-trained forces do deploy, go out in the field, to go after the guerrillas. They have mobility problems, because they don't have many helicopters available, but they do move.

Perhaps General Gast could comment on that.

General **Gast**. They are engaged quite often.

Senator **Leahy**. If I might follow up on your answer on the concern for human rights and their moving forward to that. Wouldn't one indice of a willingness to guarantee people's human rights, wouldn't one indice of that be to bring to trial people who are charged with murders or violation of human rights?

Mr. **Schneider**. Yes; that would be an important property of concern for the administration of justice.

Senator **Leahy**. I spent about a third of my adult life as a prosecutor, and it appears to me that if as a prosecutor I had had anywhere near the number of unsolved murders on my hands as they do down there, we would see a couple of people go to trial just now and then, just enough to keep your hand in, so to speak. Here we have at least some that have attracted worldwide attention.

I will take again the case of the nuns, and I don't mean in emphasizing that that somehow if we have the murders of these four people brought to justice that it somehow wipes the slate clean. There have tens of thousands of Salvadorans brutally murdered with nobody ever charged, but this I mention only because we have put so much of our own resources in, huge amounts of money and thousands of man-hours of time into helping them develop cases against the people and yet nothing happens. Does that really square with the commitment to human rights, or am I missing the point entirely?

Mr. **Schneider**. No, I think the point is very appropriate. I would just disagree, to the extent that, you asserted, that nothing happens. In fact, the question of seeing that justice is done, especially in some of the most celebrated murder cases, so that we can have some confidence that less celebrated murder cases will be prosecuted effectively as well.

This has been put on the front burner with the Salvadoran Government. From the reports that we have had, they are inching slowly toward seeing that justice is done in these cases. It is not fast enough to suit objectives, but certainly, in the absence of the pressure that we have provided, it probably would not have happened this quickly. I think we can draw some encouragement from that.

Senator **Leahy**. If nothing happens, if the end result is nothing, what difference does it make if it is quick or slow?

Mr. **Schneider**. The end result is not nothing. We are, in the cases that you mentioned, moving toward a trial. I don't want to be rash in predicting the outcome as yet, but I think it is safe to say that this is receiving maximum attention by the U.S. Government and will continue to do so, until justice is done in these cases.

Senator **Leahy**. I was advised by the State Department about 8 or 9 months ago, and I was given an answer almost exactly what you just said then, that the matter would be cleared up in a very, very short time. Maybe you are able to take a more lengthy view of time than some of the rest of us, but certainly it was my understanding that that would have been long before now. Yet, the analyses I received of those cases just within the last 2 weeks is that they are no further along than they were 9 or 10 months ago when I was told they were just about to move very quickly. But in some very distinct ways they are even behind where they were then.

Now you talk about these things being on the front burner. There must be a very, very big front burner, and I would think somebody ought to check to see whether the heat was turned on on that front burner.

Mr. **Schneider**. An official returned from El Salvador yesterday, and reported that, in one of the cases, that one of the deadlines that is associated with the process of moving the cases to trial was crossed yesterday. I share your disappointment about the pace at which these cases have moved, but I don't think it reflects any lack of heat or attention, as you have suggested.

Senator **Leahy**. Oh, I don't think it reflects any lack of attention. I know that I have a lot of confidence in our Ambassador down there, Mr. Hinton, and I know that he has brought a lot of heat. I don't question that a bit. I don't question the fact that the United

States has pounded them over the head over and over and over again in these cases. I don't question that a bit.

My point is that even having done all that and even having brought enormous heat, I mean heat that would be considered unbelievable in any other country, nothing happens. Maybe that might tell us a little bit about what we are dealing with. If you stop and think of it that way, then you may understand the frustration that I feel and a lot of other people feel that we don't seem to be exploring other methods if these are not working.

There is going to be a concern expressed, I suspect, by the people we represent in whatever states we come from as more and more money goes down there and naught happens. I think that it would well behoove those who advise the Secretary of State to look very carefully at the recommendations of people who are on the spot down there when they talk about dialogs, and I would refer especially to the Archbishop's recommendations. I think that those are significant ones, and I would not reject them out of hand and I would not think that the Archbishop is especially trying to turn his country over to any foreign power, but that he is looking for an effort at reconciliation.

Just to go to a personal reflection, he told me at one point—and as you know he is very extremely critical of both the right and the left for the killings—that the blood of his nation is being drained out by this constant killing.

I certainly gather that a lot of them feel that if naught is coming from the efforts we have taken so far that we ought to try something else.

Mr. Chairman, I have gone well into my time, and certainly I will yield back. On the next go-around I will have questions on another subject.

Senator **Kasten**. I have no further questions. I had an opportunity to question this witness before.

Senator **Leahy**. I apologize for being late, but it was such an extraordinary event to have President Ford before our other committee.

Senator **Kasten**. We have two other witnesses, but I would be happy to yield to you.

Senator **Leahy**. I can submit a lot of this for the record, if I can ask just a couple of quick questions.

PERCENT OF INCREASE

The total fiscal 1984 security assistance request is for $9.2 billion. If approved in total by the Congress it would represent a 73.6-percent increase above fiscal 1981 security aid levels. Is there any other existing federal program that has increased by a comparable percentage in this 3-year period?

Mr. **Schneider**. I will have to check that for the record, but security assistance, because it has been emphasized by this administration as a key element of getting our objectives abroad achieved, has been the subject of some increases.

[The information follows:]

INCREASED SECURITY ASSISTANCE FUNDING

This comparison is exaggerated by the fact that it compares the actual fiscal year 1981 levels with what the Administration has proposed to spend in fiscal year 1984. Nevertheless there has been a significant increase in the period concerned; the Administration's policy has been to reverse the decline in security assistance that was contributing to weakened resolve on the part of our allies. Moreover, the southward thrust of Soviet military power into Africa, Southwest Asia, and Central America since the late 1970's has so significantly increased the potential military threat to ourselves and nations friendly to us that a significant increase in security assistance has become necessary. For example, the "forgiven credits" provided to Israel and Egypt will have doubled over the 1981–84 period if Congress agrees to our proposed level. This reflects our commitment to the Middle East peace process. Despite these increases, total foreign assistance still amounts to less than two percent of federal government expenditures.

Senator LEAHY. But if it has increased more than anything else, does that mean that this has received more emphasis than any other program?

Mr. SCHNEIDER. The way I would put it is that the world changed very substantially in the late 1970's. The circumstances that we were comfortable with, and could afford at relatively static levels of funding in the 1980's, no longer exist. The movement of the Soviets into Afghanistan, the Horn of Africa, Central America, and so forth, has changed the state of the world to the point where, simply to respond to the circumstances as we see them we need more security assistance.

DEFAULTS ON U.S. LOANS

Senator LEAHY. How many nations are currently in default to the United States for past loans?

Mr. SCHNEIDER. It is on the order of a dozen. I don't have the list before me. I can give you the exact list.

Senator LEAHY. I have a list here, and I just want to see if this sounds correct to you. Bolivia, Costa Rica, El Salvador, Lebanon, Liberia, Morocco, Nicaragua, Senegal, Sudan, Tunisia, Turkey, and Zaire.

Mr. SCHNEIDER. That sounds like the list.

General GAST. They are delayed on payment, sir. There may be a technical difference between default. The payments are late.

Senator LEAHY. None of those are in default?

General GAST. They are not in default under the Brooke amendment, with the exception of Ethiopia and Nicaragua which no longer pay us.

Senator LEAHY. How long do they have to be late to be in default?

General GAST. Over 1 year. Of course we do not provide any more assistance than what is ongoing, but we have none in that condition at the moment.

Senator LEAHY. But over 1 year makes them in default and up to 1 year they are late?

General GAST. Yes, sir, for purposes of the Brooke amendment.

Senator LEAHY. I wish I could have a deal like that with the bank that holds my mortage.

General GAST. Well, they pay the interest, sir, on their payments when they come in, plus additional late charges.

Senator **Leahy**. What is the mechanism to cover such defaults, is that the guaranteed reserve fund?

General **Gast**. Yes, sir.

Senator **Leahy**. How much money is in the fund?

General **Gast**. About $819 million at the moment.

Senator **Leahy**. What is the trigger for additional funds?

General **Gast**. $750 million, which we expect to come due sometime in fiscal year 1984, possibly about 1 year from now, 12 months.

Senator **Leahy**. How much has been requested in the budget request for the fund?

General **Gast**. There has been none, sir. Our response to that is we are working with various committees on a formula which we believe will be required prior to that date in order to begin a modest rebuild back. There has been none appropriated into it since 1980.

Senator **Leahy**. If you expect the trigger to come within about a year, do you have any idea then how much you are going to have to request in 1984?

General **Gast**. There are several options that are being considered, a very modest beginning in 1984 to anywhere from 1 to 5 percent, and we are working with various committees and staffers in trying to come up with a formula for that, sir.

Senator **Leahy**. What if a couple of the biggest debtors defaulted at the same time?

General **Gast**. Our concern, I think, would be not defaults but rescheduling, and that is where the guarantee reserve fund is reduced, Turkey primarily and other examples of when the Paris Club or someone else agrees to a total rescheduling, then these countries fall into that, and the guarantee reserve fund picks up the principal and interest in the meantime until they pay it back.

Senator **Leahy**. Do we look at the possibility that some of our major debtors may just decide almost as a cartel to default all at once?

General **Gast**. I think, sir, that my response would be that that would be in a larger context of other programs and other moneys and other loans.

Senator **Leahy**. But it may well affect these.

General **Gast**. It could affect these which are a very small part of it if they would default.

Senator **Leahy**. A few hundred million dollars here or there is still a pretty significant amount if we don't have anything budgeted for it.

General **Gast**. Yes, sir, we recognize that.

Senator **Leahy**. Thank you, Mr. Chairman.

Mr. Schneider, thank you.

Senator **Kasten**. Thank you, Senator.

Mr. Schneider, thank you very much once more.

Senator **Leahy**. I would like to submit questions for the record.

SUBMITTED QUESTIONS

Senator **Kasten**. Senator Leahy would like to submit questions for the record. It is my understanding that Senator Inouye will have some questions and printed materials to submit for the record. I also believe that there are some other Senators who will have materials and questions to submit for the record and hopefully you can respond to our request as quickly as possible.

Mr. **Schneider**. We will respond expeditiously.

Senator **Kasten**. Thank you very much.

[The following questions were not asked at the hearing, but were submitted to the Department for response subsequent to the hearing:]

QUESTIONS SUBMITTED BY SENATOR KASTEN

FY'83 A.I.D. OBLIGATION PROJECTION

Senator Kasten: In consultations held with the Committee some months ago, the State Department was informed of the longstanding Committee policy not to provide no-year funds. Despite that, the Administration is asking for such funding for Lebanon economic assistance. An exception might be made for extraordinary circumstances, but those do not seem to be existent in this case. What is the most realistic figure for obligation in fiscal year 1983 -- your statement indicates $100 million -- but that frankly does seem to be on the high side.

Secretary Schneider: During the past months A.I.D. and the government of Lebanon have made excellent progress in designing several of the projects described in our FY'84 Congressional Presentation. These projects include the Capital Equipment Fund, Technical Assistance to the Council for Development and Reconstruction, School Health Education and some PVO activities. We are confident that these projects, which total close to $50 million, can be obligated no later than June 1983. In the meantime, design work on other proposed projects is also proceeding very rapidly. We anticipate that obligations of at least another $50 million will be possible by September of this year.

In addition to initiating projects that will greatly assist Lebanon in the reconstruction effort, we also believe that a substantial FY 1983 A.I.D. commitment is required to demonstrate U.S. support for the new government, as well as to attract other contributors to the rehabilitation task. That, together with the uncertainty as to exactly how much will be ready for obligation in FY 1983, is the reason for our requesting $150 million in no-year funds in FY 1983 to be obligated over a two-year period.

An illustrative FY 1983 list of planned projects is presented below:

Technical Assistance for the Council of Development and Reconstruction	$ 4,500,000
Catholic Relief Service (Reconstruction and Rehabilitation)	2,600,000
Save the Children Foundation (Credit Cooperatives for Small Business	3,700,000
YMCA (Vocational Training Project)	800,000
School Health Education	1,000,000
Telecommunications Rehabilitation	10,000,000
Potable Water and Environmental Sanitation	22,000,000

Small Scale Enterprise	10,000,000
Health Facilities and Services	10,000,000
Capital Equipment Fund	35,400,000
Total	$100,000,000

MILITARY ASSISTANCE--WHOSE PRIORITY?

Senator Kasten: One of the most consistent criticisms you hear from those who are most skeptical about our military assistance program is that the United States, in effect, forces military assistance on these countries at the expense of more immediate needs in the economic area. What is your response to those who argue that the military assistance programs are our priority and not the countries' which receive that assistance?

Secretary Schneider: The balanced nature of our foreign aid program is a clear statement of our recognition that developing countries have different problems. Economic and political instability and external threats cannot be addressed independently of each other. Depending on the circumstances we may emphasize one or another type of assistance to a given country. We do not "force" military, or any other type of assistance, on recipients.

SAVINGS FROM MILITARY ASSISTANCE

Senator Kasten: Another argument you make in favor of military assistance is that it keeps down the costs of our own purchases of weaponry. Can you indicate in percentage or dollars what this actually means?

Secretary Schneider: Secretary Weinberger in his testimony before the House Foreign Affairs Committee on February 22, pointed out that the services enjoyed cost savings from Foreign Military Sales during the period from 1978 to 1982, of $3 billion.

SUDAN AID LEVELS

Senator Kasten: It would appear that our assistance to Sudan, and for that matter taken together with the IMF proposals, barely keeps that country in a position to simply pay back previous IMF and bilateral contributions. In other words, Sudan is barely able to keep up with minimum requirements, much less being able to make the necessary expansions for her economic recovery. Isn't our economic assistance, and for that matter again the IMF's, woefully inadequate given the economic situation in Sudan?

Secretary Schneider: Current international efforts to help Sudan are notable for addressing, in a new and unique way, the very problems you raise. The IMF and IBRD worked closely together and with the Government of Sudan to produce both a stabilization program under IMF auspices and a prioritized, highly selective three-year investment program under IBRD leadership. Together these address both the immediate problems of the financial crises and the need for growth in production and Sudan's capacity to save, invest and meet its import requirements from its own resources. The total effort will take several years. The levels of our and others' aid are designed to meet essential requirements under these programs and to help maintain political stability as the reforms are implemented. Providing more balance of payments aid would reduce the pressure to implement reforms which eventually must be adopted (or reduce the need for other donors' help). Project aid levels must take into account absorptive capacity and Sudanese budget constraints. During the period of economic adjustment Sudan will require debt relief and the creditors have agreed to this for 1983. While greater amounts of program aid could improve Sudan's immediate debt servicing ability, we believe our resources should be concentrated on restoring Sudan's productive capacity and ability to properly service its debts in the future.

DEPLETION OF GUARANTY RESERVE FUND

Senator Kasten: There is some concern being expressed that the Guaranty Reserve Fund which underwrites the FMS program is being depleted, and that given the economic situation in the world, it may continue to be depleted, perhaps at an increasing rate. Are there any plans to seek appropriations to replenish this Fund, or are there other suggestions being considered, for example, that the FMS program be changed into an all grant, though obviously reduced, program?

Secretary Scheneider: If depleted at the present rate, the Fund will drop below the $750 million level in FY'84. We are required by law to inform the Congress when that occurs, and propose remedial action. We are considering proposals to replenish the Fund in FY'85.

REQUESTS FOR SUDAN, TUNISIA, AND SOMALIA

Senator Kasten: The first stumbling block to be faced by the Subcommittee is the Administration's supplemental, and I wonder if you can indicate what urgency has been added to the requests for Sudan, Tunisia and Somalia as a result of the recent activity by Libya?

Secretary Schneider: The recent Libyan activity to which you refer demonstrates that the urgency for Tunisia and Sudan to continue the upgrading of their armed forces, on which they embarked in response to the Libyan threat and with our assistance, is undiminished. The timely completion of the upgrading programs to which both have committed themselves depends on our willingness to maintain financial support for mutually-agreed schedules for coordinated acquisition, maintenance and training. Similarly, this Libyan activity, combined with the extraordinary Libyan subventions recently provided to Ethiopia under the terms of the Libyan-Ethiopian-PDRY pact, indicate the continued high priority we must give to security assistance for Somalia. I would like to place in the same context the small program through which we seek to respond to Niger's request for assistance in equipping its small but efficient army in the face of continued threats of Libyan subversion.

SECRETARY SCHNEIDER'S ROLE IN BUDGET REQUESTS

Senator Kasten: Could you explain what role you play with respect to the budget requests for multilateral development assistance and the bilateral accounts other than military and ESF?

Secretary Schneider: The FY 1983 and FY 1984 foreign assistance budgets were developed using a fundamentally new approach -- the integration of all assistance resources and their allocation against a set of foreign policy priorities and criteria. The Secretary of State is responsible for the overall budget. He has delegated to me the responsibility for coordinating the integration of all foreign assistance budget resources -- bilateral, multilateral, security and economic. I work closely with AID, Treasury, OMB, Defense, and other relevant agencies.

JUSTIFICATION FOR SUPPLEMENTAL

Senator Kasten: You will remember that the Conference Committee on the Continuing Resolution included language that suggested the levels of assistance being provided might turn out to be inadequate and, therefore, require supplementals; but that language also stressed the need to trim the request only to real foreign policy urgencies. It would appear that aside from the added circumstances affecting Sudan, Somalia, and Tunisia, that you have basically just re-requested what we did not provide. Are there any additional circumstances you would like to present that were called for in that conference report language?

Secretary Schneider: I believe, Senator, that you will find our request for supplemental funding of FMS for Africa considerably reduced from that which was requested for the same countries in the Administration's FY 1983 budget presentation. As of November 12 our 1983 request for thirteen countries -- including Sudan and Somalia -- totaled $104 million. The second Continuing Resolution was sufficient to provide only $33.7 million of this, leaving an unfunded balance of $70.3 million. In our supplemental request, we have eliminated altogether six countries (including Sudan) and reduced the amounts for three others so that our total request is for $20.5 million for seven countries -- a reduction of more than 70 percent. One-third of this amount, $7.5 million, is for Kenya.

We have increased our MAP request for Africa since the November 12 revised request of $80 million, of which the second Continuing Resolution provided $46 million. Added to the $34 million unfunded balance has been the $50 million forgiven credit for Sudan in the revised request and $2.5 million for Djibouti, whose port and airfield are used extensively by the U.S. Navy and which has been financially unable to accept FMS credits offered in the past. Of the balance of $29 million for five other countries, two-fifths is again for Kenya.

While we cannot say that any of these other countries currently face a military emergency, almost all of them face economic/financial emergencies more severe than our own. We have certainly taken the latter into account, both in cautioning these countries and many others that we will not be able to meet their expectations of assistance and in giving priority to those requests that remain. I believe that in every instance the requests for additional FMS and MAP funding represent either the minimum amounts required for programs to which we have pledged our support if we are to maintain them at viable levels, or the bare minimum to maintain our credibility with African countries that have consistently proven responsive to our interests locally, regionally and/or internationally.

QUESTIONS SUBMITTED BY SENATOR HATFIELD

DETERMINATION OF LEVELS AND TYPES OF MILITARY ASSISTANCE

Senator Hatfield: Are the levels of military assistance included in the FY'84 Administration request determined by the Department of State in consultation with the Department of Defense, or vice versa?

Secretary Schneider: The Secretary of State has responsibility for security assistance. The proposal for FY'84 was developed in a complex interagency process, in which we solicit the views of the Departments of Defense and the Treasury, the Agency for International Development, and the Executive Office of the President.

The President makes the ultimate decisions regarding the program.

Senator Hatfield: Once the level of military assistance has been determined, how is the split between grants and loans established?

Secretary Schneider: At the same time that country levels for military assistance are established, the recommended degree of concessionality for that assistance is also determined by setting a preferred combination of loans and grants. This is done in the first instance by the Interagency Security Assistance Program Review Working Group, chaired by the State Department. Its recommendations are passed through me to the Secretary of State, then to OMB and ultimately to the President for approval and incorporation in the federal budget request. Once the Congress has provided authorizations and appropriations, the available funds are then parcelled out to the individual country programs in accordance with the established recommended levels. However, a fundamental dilemma occurs when, as has happened repeatedly in recent years, the Congress provides much less concessional or grant assistance than is requested. We do our best to provide adequate levels of assistance at appropriate levels of concessionality with the resources available, so that our many friends can obtain the defense articles and training they need from us to deter aggression and contribute to Free World defense.

COMPONENTS OF MILITARY ASSISTANCE

Senator Hatfield: In the process of determining the split between loans and grants, is a country-by-country assessment made on the ability of those countries to repay the loans they receive?

If so, what is the criteria by which we determine a country's ability to repay?

Secretary Schneider: The decision to propose loans as military assistance carries with it a judgment that the recipient will be able to repay. During interagency consideration of the needs of a potential recipient country and the type of assistance to recommend, the state of that country's economy is a central factor. Both current economic conditions and the prospects for significant change over the life of any loan are considered. In making these assessments, economic data provided by the U.S. Mission in that country is combined with other information available here.

EFFECT OF MILITARY ASSISTANCE PROGRAMS ON RECIPIENT COUNTRIES

Senator Hatfield: In the FY'84 budget request for Egypt, Israel and Turkey, loan guarantees are requested for each country in excess of $500 million. Is the position of the Department of State that these levels of assistance to these countries can be maintained without inhibiting economic progress within those nations?

Secretary Schneider: Our FY'84 request for these three countries contains a mix of FMS forgiven credits (for Egypt and Israel only), MAP and Economic Support Funds (ESF), as well as FMS loan guarantees. This reflects the Administration's desire to be as forthcoming as possible with grant assistance, thereby lessening the burden of the guaranteed portion of the overall assistance package. The levels contained in the FY'84 request represent our assessment of the debt burden these countries can appropriately carry; it is important that adequate grant assistance be available in order not to overburden them.

Senator Hatfield: Should these nations experience economic difficulties, would the Department of State consider switching to a program which would be entirely on-budget?

Secretary Schneider: Unforeseen economic difficulties could stem from a number of causes, such as the generally depressed world economic situation, fluctuations in the prices of raw materials and commodities. Our security assistance request is designed to be as concessional as possible, within the restrictions imposed by the availability of grant assistance. While we prefer to avoid speculation on hypothetical situations, should these countries encounter economic difficulties, we would investigate possible ways we could assist them.

Senator Hatfield: If the entire military assistance program was on-budget, would that assist the Department of State in devising a program based on the economic conditions of recipient countries?

Secretary Schneider: Theoretically, it would increase our flexibility, because the authority in section 23 of the Arms Export Control Act allows us to provide financing at relatively low interest rates. However, it would have the apparent effect of greatly increasing the budget request, which could lead to pressures to reduce the size of the program.

GUARANTY RESERVE FUND

Senator Hatfield: The FY'84 request for military assistance includes no additional monies and proposes no action to address the likelihood of the Guaranty Reserve Fund dropping below the level of $750 million. Is it the view of the Department of State that the Guaranty Reserve Fund is adequately capitalized to cover future defaults and debt reschedulings?

Secretary Schneider: No. The Administration recognizes that there will be a need to provide for replenishment of the Guaranty Reserve Fund by fiscal year 1985. Corrective action will be proposed either in connection with the statutory notification that will most likely occur in fiscal year 1984 when the GRF reaches the $750 million level or, alternatively, in the FY 1985 President's Budget.

Senator Hatfield: If not, what actions is the Department of State contemplating to address the likelihood that the $750 million threshold will be reached by FY'84?

Secretary Schneider: The Administration will be recommending replenishment action as indicated in the answer to the preceding question.

Senator Hatfield: Egypt, Israel and Turkey are three major recipients of FMS loan guarantees and Economic Support Funds. Are there sufficient funds in the Guaranty Reserve Fund to cover debt reschedulings by those countries individually or corporately?

Secretary Schneider: There are sufficient funds in the Guaranty Reserve Fund at present to cover any reschedulings that are likely to occur in the next two to three years. The Administration's recommendation that will be presented at the time of statutory notification or in conjunction with the FY 1985 President's Budget will provide for anticipated reschedulings for these three countries over the longer term.

Senator Hatfield: If not, does the Department of State believe then that the economies of those three nations are so sound that there is no need for the Guaranty Reserve Fund to have the necessary reserves to cover potential debt reschedulings or defaults?

Secretary Schneider: Regardless of the state of the economies of Israel, Egypt, and Turkey, the Guaranty Reserve Fund should have adequate reserves to guarantee the service of FMS loans, as and when the payments fall due. In the case of Turkey, financial policy and progress toward economic recovery make it likely that Turkey will meet its commitments in the foreseeable future. Further, neither Israel nor Egypt is likely to be a serious problem in the near future. The normal reserves in the Fund are thus adequate for the level of problems we might experience.

DEBT RESCHEDULING

Senator Hatfield: Over what time frame does the Department of State feel comfortable in predicting that a country will not have a debt rescheduling problem? One Year? Three Years? Five Years?

Secretary Schneider: An assessment of a nation's debt service capacity cannot be made in isolation of the overall economic environment. While there is no rule of thumb, forecasts of the economic environment beyond one year are generally subject to considerable uncertainty. There are, however, nations whose debt situations and long-term economic prospects are sufficiently favorable for the State Department to be reasonably confident that a debt rescheduling will not occur in the indefinite future just as there are other nations whose circumstances raise the real possibility, but by no means certainty, that a rescheduling could occur during the next 12 months.

Senator Hatfield: What consideration does the Department of State give to the fact that recipient nations are in the midst of rescheduling of debt by the International Monetary Fund?

Secretary Schneider: The Department of State, as well as other agencies represented on the Interagency Security Assistance Program Review Working Group, take into account the overall economic conditions in recipient countries, including whether there is a debt rescheduling underway, when determining the levels and types of security assistance and the degree of concessionality. The occurrence of a debt rescheduling generally reflects immediate economic difficulties but may not reflect longer-term problems. Underlying economic conditions may be sound and current or future military assistance levels may not represent an undue burden on a particular country. However, particular consideration is given to countries in the midst of a debt rescheduling.

Contrary to the implication of the question, debt rescheduling is not conducted through the IMF but is provided through direct negotiations between the debtor country and its official creditors.

Senator Hatfield: With respect to FMS, are we, in effect, using the Guaranty Reserve Fund to bail out smaller countries and hoping we won't have a major debt rescheduling?

Secretary Schneider: The Guaranty Reserve Fund had been used to reimburse the Federal Financing Bank for $385 million in net unrepaid reschedulings through the end of January 1983, for five countries. As of the same date, the Fund had made $68.5 million in payments for 10 countries which had not met payment deadlines. The latter amount fluctuates as loan recipients subsequently make repayments and other payments fall due.

Senator Hatfield: A recent GAO report on the use of loans to support foreign military sales provides a listing of countries that have, in effect, defaulted on FMS guaranteed loans or have had non-military debts rescheduled or both. I would appreciate your providing the Subcommittee with a country-by-country breakdown of the FMS guaranteed or direct loans those nations have received since 1974, the dates of any reschedulings, the overall debt situation of these nations (i.e., short-term, long-term, concessional, or market rates; U.S. and non-U.S. debt; and commercial or official debt), and an assessment of defaults or reschedulings that they have had on the contingent liability of the Guaranty Reserve Fund.

In addition, I would also request that you provide for the Subcommittee a detailed listing of the principal and interest payments of those nations which have defaulted or rescheduled debts for the same time period mentioned above, as well as for the FY'84 FMS request if it is approved without change.

Secretary Schneider: Following are four tables which respond to parts of the question:

A table on FMS Loan Data which breaks down the amount of FMS loans made to the 13 countries, and shows payments due, balances, and arrearages on rescheduled loans at the end of FY'82. Payments of principal and interest are included;

A table of Debt Data on Selected Countries which summarizes the debt situation of each country, from international financial institution data;

A list of U.S. Rescheduling Agreements with these nations; and

A summary assessment of the effects of arrearages and reschedulings on the FMS Guaranty Reserve Fund.

FMS LOAN DATA

Country	Loans, FY 1974-82		Payments on Rescheduled Loans *			Balances Due on Rescheduled Loans *		Arrearages*
	Direct	Guaranteed	Direct	Guaranteed	FY	Direct	Guaranteed	
Bolivia	8.5	15.0	-	-		-	-	3.214
Costa Rica	-	5.0	-	-		-	-	1.157
El Salvador	3.4	32.2	-	-		-	-	-
Lebanon	-	119.5	-	-		-	-	3.296
Liberia	1.8	18.1	.488	.963	1981	.465	1.410	
			-	.472	1982			
(Total)			.488	1.436				
Morocco	3.0	250.4	-	-		-	-	28.774
Nicaragua	-	8.0	-	-		-	-	.389
Peru	5.0	85.0	.281	4.419	1979	-	7.068	-
			.281	4.417	1980			
(Total)			.562	8.836				
Senegal	-	8.0	-	-		-	-	2.104
Sudan	-	110.0	-	7.535	1982	-	7.535	.970
Tunisia	2.5	225.0	-	-		-	-	-
Turkey	85.0	1,460.9	12.195	-	1978	-	-	
			16.172	39.184	1979			
			22.308	102.485	1980			
			21.263	96.545	1981			
			43.891	99.354	1982			
(Total)			115.829	337.568		87.113	320.225	.007
Zaire	89.5	19.6	-	10.490	1978-80	-	-	
			16.196	-	1981			
			12.622		1982			
			28.818	10.490		32.929	4.771	.429

(figures in $millions)

* as of September 30, 1982.

Debt Data on Selected Countries*

	Total Debt (billions)(1) (2)	Debt Service/ Export Ratio(1)	Percent of Concessional Debt	USG Debt as of 12/31/82 (millions)	Total US Bank Debt 12/31/83 (millions)
Bolivia	2.4	26.9	30	337	370
Costa Rica	1.9	14.1	15	36	452
El Salvador	0.7	N.A.	55	275	73
Lebanon	0.2	N.A.	31	99	174
Liberia	0.6	N.A.	48	153	357
Moroco	7.9	30.1	45	629	N.A.
Nicaragua	2.0	N.A.	28	262	400
Peru	6.0	44.9	23	393	2,450
Senegal	1.1	N.A.	45	27	66
Sudan	8.0	72.1 (3)	N.A.	268	157
Tunisia	3.2	N.A.	48	520	159
Turkey	14.2	13.3	32	3,000	1,404
Zaire	4.0	N.A.	30	818	70

* Excludes short term debt
(1) Data as of 12/31/81 except 12/31/82 data for Sudan
(2) Excludes Private Non-guaranteed except for Turkey and Senegal
(3) 250 percent including arrears

Source: World Bank Debt Tables; Country Exposure Lending Survey

U.S. RESCHEDULING AGREEMENTS

Liberia	May 7,1981	$7.6m
	October 19,1982	7.5m
Peru	July 5, 1979	105m
Sudan	August 23, 1982	43m
Turkey	Sept. 21, 1978	166m
	Dec. 11, 1979	191m
	Oct. 24, 1980	721m
Zaire	1976	46m
	1977	68m
	Feb. 7, 1979	448m
	July 28, 1980	72m

EFFECT OF ARREARAGES AND
RESCHEDULED FMS GUARANTEED LOANS ON THE
GUARANTY RESERVE FUND AS OF 9/30/82

Guaranty Reserve Fund Balance (Dec 16, 1980)			1,116,590.
Payments on Arrearages:	(Dec 16, 1980 - Sept. 30, 1981)	$ 51,596	
	(Oct 01, 1981 - Sept. 30, 1982)	+ 10,606	
	Subtotal	$162,202	
Less: Recovered Arrearages		-112,752	
Net Arrearages Outstanding			- 49,450
Payments to FFB for Rescheduled Loans:			
	(Dec 16, 1980 - Sept. 30, 1981)	$ 58,824	
	(Oct 1, 1981 - Sept. 30, 1982)	$106,269	
	Subtotal	$165,093	
Less: Recovered on Rescheduled Loans		- 16,087	
Net Payments to FFB for Rescheduled Loans			-149,006
Prior Year Collection Adjustments			428
Guaranty Reserve Fund Balance, Sept 30, 1982			$918,562

QUESTIONS SUBMITTED BY SENATOR RUDMAN

VIPER TO JORDAN

Senator Rudman: I have several questions regarding the Foreign Military Sales (FMS) program.

You have asked for supplemental FY'83 funds and a sizeable increase in FY'84 in order to extend additional FMS loan guarantees to Jordan. It is my understanding that Jordan has expressed an interest in purchasing Viper anti-tank rockets. I am certain you are aware of my concerns about this weapon, given its history of cost overruns and operational deficiencies, and the fact that the Congress last December provided that "no further funds shall be used to develop or procure Viper." Should Viper somehow become an exportable commodity, it would appear to contradict Congressional intent.

Could you tell us if our government or representatives of the Viper contractor have actively promoted a transfer of Vipers to Jordan? If so, is this process symptomatic of a larger arms transfer policy, wherein U.S. taxpayers can find themselves in a position of financing a foreign nation's purchase of equipment about which our own government has raised serious doubts?

Secretary Schneider: Jordan believes, and U.S. experts agree, that it faces a severe armored threat for which it is inadequately prepared. Its inventory of TOW systems and the obsolescent Dragon does not fill this requirement. The Viper, a relatively inexpensive man-portable anti-armor weapon, would meet these criteria. Chrysler, the manufacturer, has a license to discuss the sale of Viper to Jordan. As part of our regular joint military deliberations, the Jordanians have raised Viper with us, but the U.S. Government has not promoted it or worked in conjunction with the manufacturer to urge Jordan to buy it. The Jordanians are interested in Viper, but are also aware of the problems it is having. As yet, Jordan has not asked to buy Viper.

FMS PROGRAM

Senator Rudman: Large increases are being requested for the FMS program this year. The FY'84 request for FMS represents a 13 percent increase over the amount provided in the FY'83 Continuing Resolution. That CR, by the way, inadequate though it may be from your point of view, contains nearly one billion dollars more for FMS financing than was appropriated in FY'83. At a time of increasing economic constraints, it becomes progressively more difficult to support increases in the FMS program without firm assurance that sound, practical arms sales agreements are being made.

Another aspect of the FMS program which troubles me is the extent to which developing countries' debt problems are exacerbated by overly ambitious arms purchases. A month and a half ago, the GAO issued a report entitled, Unrealistic Use of Loans to Support Foreign Military Sales. The report makes a number of important findings, including the fact that some countries cannot afford the high interest rates associated with off-budget FMS loans, and that, therefore, such loans only delay rather than resolve the question of how to fund military imports for less developed countries of strategic importance to us. One of the recommendations made in the report is that FMS programs be tailored to the ability of countries to repay their loans. In light of the fact that this Subcommittee is being asked to find an additional $8.4 billion for the IMF to pull a number of developing countries off the brink of severe debt crisis, I find this report to be especially timely, and I would be interested to know your reaction to it.

Secretary Schneider: We agree that the ability of recipients to repay FMS guaranteed loans is of major concern. We have shown our recognition of this by tailoring the annual security assistance budget request. The Congress has consistently reduced the grant and concessional content of the program. We need to increase the grant funding levels in our security assistance program, and I hope the Committee will remember their importance when you are weighing the competing uses of budget funds.

FMS GUARANTEED LOAN PROGRAM

Senator Rudman: In your opinion, does the FMS guaranteed loan program aggravate the debt problems of strategically important developing countries?

Secretary Schneider: FMS guarantees have been provided to strategically important developing nations with varying capacities to assume new debt obligations. The Administration endeavors to obtain FMS loan packages that are consistent with the debt situations of the recipient nations. Budgetary constraints preclude Congressional approval of the concessional terms we consider appropriate in all cases. Nevertheless, since the military expenditures of these nations are given a high priority by the governments involved, the absence of FMS guarantees would often result in even more disadvantageous financial arrangements for these countries. Accordingly, I do not believe that the FMS guaranteed loan program generally aggravates the debt servicing difficulties of our strategic developing country allies.

FMS AND TURKEY

Senator Rudman: Turkey, for example, has been unable to meet its FMS payments in recent years because of balance of payments problems which have caused the IMF to institute an austere program of economic realignment in Turkey. In the case of a nation as important to the strategic interests of the U.S. and the entire NATO alliance as is Turkey, are alternative funding approaches for FMS being contemplated, which would both satisfy Turkish security requirements and alleviate some of the problems cited in the GAO report?

Secretary Schneider: In the late 1970's Turkey suffered an economic crisis. In 1980, the Turkish Government, in consultation with the IMF, World Bank, and OECD donor countries, adopted a policy of economic austerity and instituted many needed reforms;

it has managed its finances much more strictly than before, leading to significant improvement in prospects for the Turkish economy. Turkey's current excellent economic performance obviates the need for alternative approaches.

However, the general increase of LDC indebtedness has always been of great concern to us. In our annual security assistance budget proposal each year, we have requested significant levels of grant funds, precisely in order to help friends and allies whose debt burdens are critical.

QUESTIONS SUBMITTED BY SENATOR INOUYE

TERMS OF ASSISTANCE FOR ISRAEL

Senator Inouye: Mr. Schneider, the Administration has proposed a $200 million cut in the forgiven portion of the FMS program for Israel. How do you justify this sharp reduction? Has Israel's ability to repay FMS loans significantly improved over the past year? What impact would this reduction in the forgiven portion have on the Israeli economy?

Secretary Schneider: As you know, the Administration opposed the additional funds for Israel cited in your question in large part because we did not agree that there was any economic requirement for such additional grant funding. The levels we have proposed for FY'84 represent an increase over our FY'83 proposal, are fully adequate to meet Israel's economic and security requirements, and are consistent with U.S. budgetary reality. The improved terms of our proposal for FY'84 are in part in response to Israel's export performance in 1982, but we continue to believe that Israel's economy remains strong and vital.

Overall, Israel's economy has shown no marked change this year in its ability to service FMS loans -- there has neither been any significant improvement nor deteriation. There is no reason to project any adverse impact on the Israeli economy from acceptance of the Administration's proposed aid levels and terms.

Export performance declined somewhat in 1982 but capital inflows more than covered the shortfall as evidenced by the fact that official foreign exchange reserves continued to rise. Moreover, Israel was able to maintain unemployment at only 5% while real wages and domestic private consumption increased.

The modest decline in Israel's exports (about 4.8% in real terms in 1982 compared to 1981) resulted in part from adverse international factors (stagnation in the economies of key western markets and appreciation of the U.S. dollar relative to Western European currencies). At the same time some domestic Israeli economic policies designed to support domestic earnings and consumption and reduce domestic inflation contributed to the decline.

The strength of the Israeli economy is revealed, however, in the growth of Israeli exports prior to 1982 -- a period when many other LDCs were already suffering export shortfalls. The Israeli economy has shown greater resilience than many to adverse international factors and, assisted by appropriate economic policies, should be well situated to take advantage of an expected modest upturn in the Western economies this year.

Given Israeli economic performance, U.S. budgetary reality, and the requirements of other vital U.S. strategic objectives, the Administration's proposal for FY'84 represents a generous response to Israel's requirements.

INCREASE IN EGYPTIAN FORGIVEN FMS CREDITS

Senator Inouye: I note that you would provide an increase in the forgiven portion of the FMS program for Egypt. Is this intended as a signal to Israel?

Secretary Schneider: No, it is not intended as a signal to Israel. We do not use the Egyptian FMS program to send signals to Israel, or vice versa.

Senator Inouye: What is the reason for the increase in the forgiven portion of the Egyptian program?

Secretary Schneider: We consider the Egyptian FMS program vital to that nation's defense and to American interests in the Middle East. However, the additional FMS debt contributes to Egypt's debt repayment burden. The increase in our request forgiven FMS credits, from $400 million in FY'83 to $450 million in FY'84 is intended to provide some relief in this area.

EFFECT OF ECONOMIC CRISIS ON SUDAN'S SECURITY

Senator Inouye: In fiscal year 1982, Sudan received $100 million in FMS credits, the repayment of $50 million of which was forgiven. Is the Sudan now capable of meeting the costs of enhancing its security? I had thought that the Sudan's economic situation had deteriorated over the past two years. Is that not the case?

Secretary Schneider: Sudan continues to face a serious balance of payments problem; the value of its essential imports still exceeds export earnings by about 3:1. Because of its debt servicing problems, new commercial credits are virtually unobtainable. As a result, Sudan is unable to spare any foreign exchange to purchase the goods and services it needs to enhance its self-defense capability.

INCREASES IN FMS CREDIT GUARANTEES

Senator Inouye: The Administration is proposing a substantial increase in FMS credit guarantees in fiscal year 1984. Are you confident that the countries selected by your office to receive FMS guaranteed credits have the ability to repay these loans?

Secretary Schneider: I believe so. We carefully evaluate the potential recipient's debt situation and ability to service additional loans, and this is weighed against the threat faced by the country and its need for assistance.

Senator Inouye: Substantial increases in FMS credit guarantees are proposed for Thailand, Pakistan, Turkey, and Peru, among others. The January 10 edition of the IMF Survey indicates that each of these countries is currently the recipient of IMF assistance. Should the United Staes not be concerned about their ability to repay military loans?

Secretary Schneider: The IMF involvement makes it more likely that these countries will improve their economic situations. The IMF requires economic reforms and more effective management of a country's economy.

FMS GUARANTY RESERVE FUND

Senator Inouye: OMB budget tables show record level outlays in fiscal year 1984 from the FMS Guaranty Reserve Fund. Surely, your office is aware of this. Is it accurate to say that the Administration is proposing to offer and to guarantee FMS loans in fiscal year 1984 which have a strong likelihood of exceeding the ability of recipient countries to repay?

Secretary Schneider: The projected increased outlays are a percentage of an increased FMS loan guarantee program. The projection makes no allowance for economic conditions. Our proposed loan program will be based on careful consideration of the recipient's situation. We don't give loan guarantees to those who can't afford them, unless the need is simply overwhelming and there are no grant funds. We do not do this lightly, but sometimes we have no alternatives.

Senator Inouye: How do you explain OMB budget projections which show a requirement for the appropriation of $250 million in fiscal year 1988 to replenish the Guaranty Reserve Fund?

Secretary Schneider: This projection is based on the assumptions that the current rate of depletion will bring the fund down to zero in FY'87, and that we would not seek to replenish the fund. Under the law, we must propose action to the Congress when the fund falls to the $750 million level, as we expect it to do so in FY'84.

JORDAN

Senator Inouye: Mr. Schneider, with respect to Jordan, the Security Assistance presentation says, "We anticipate that Jordan would like to purchase additional modern U.S. equipment through FMS financing." What is the basis for that anticipation? Have discussions been held with the Government of Jordan?

You expect that major items, for which Jordan will seek FMS financing, include fighter aircraft and air defense equipment. Do you expect that Jordan will request FMS financing for F-16 or I-HAWK missile systems? What do you anticipate the Administration's response will be?

Secretary Schneider: No specific arms request for sophisticated aircraft, mobile I-HAWK or AIM-9L missiles are pending at this time. We have agreed to offer Stinger to Israel, Jordan, Pakistan, Egypt, and Saudi Arabia, but we have not yet signed an LOA with Jordan for Stinger.

The United States and Jordan have had a mutually productive military assistance and security relationship for over a quarter of a century in the context of our traditional close relationship. Jordan has an urgent requirement for more modern armament, especially for air defense. Jordan shares our priority goals for the security and stability of the area, including the Gulf. In light of this longstanding relationship, any future Jordanian request for the sale of arms will be given serious consideration, in full consultation with the Congress.

Should Jordan decide to engage in the peace process with us, Jordan inevitably will accept a heightened risk to its security. If Jordan undertakes such a historic commitment, the United States will accept its responsibilities of leadership by continuing our tangible support for Jordanian security.

ZIMBABWE

Senator Inouye: Mr. Schneider, what is the extent of North Korean influence in Zimbabwe?

Secretary Schneider: The Government of Zimbabwe has good relations with North Korea owing to the support Prime Minister Mugabe's Zimbabwe African People's Union received from the North Koreans during the civil war.

Senator Inouye: Are North Koreans training military forces of Zimbabwe?

Secretary Schneider: The North Koreans trained and equipped the Fifth Brigade following Zimbabwe's independence and the integration of the former guerrilla armies with the former Rhodesian Army into the Zimbabwe National Army. Prime Minister Mugabe recently announced that the training had been completed.

Senator Inouye: What can you tell the Committee about reports of massacres which have been in the press recently?

Secretary Schneider: The Government of Zimbabwe, apparently believing that its security was being threatened and in an attempt to rid the country of the dissidence, which has been going on for over a year, deployed the North Korean-trained Fifth Brigade into Matabeleland to try to restore law and order. The brutal tactics employed by the Brigade resulted in the loss of many innocent lives and the terrorizing of thousands more. The atrocities have now apparently stopped, and Prime Minister Mugabe has instructed the army to exercise greater discipline in its operation. He has also called for an investigation into the military's action.

Senator Inouye: Does it make sense to provide economic assistance to Zimbabwe in this context?

Secretary Schneider: Despite the presence of the North Koreans, the British continue to play the overwhelmingly predominant role in training and equipping the Zimbabwe National Army. Nevertheless, Zimbabwe is a non-aligned state and its choice to diversify its source of military assistance is consistent with that position. The preponderance of Zimbabwe's economic assistance also continues to come from the West. To condition continued economic assistance to Zimbabwe upon that country's willingness to reject assistance from any non-Western source would not be sound policy and would work directly counter to U.S. basic interests in southern Africa.

We deeply regret the loss of life that has occurred through the actions of the Zimbabwe Army and the Government of Zimbabwe is fully aware of our concerns. At the same time, however, it remains important to the United States to build a strong relationship with Zimbabwe which is a pivotal state in the important and volatile southern Africa region. We intend to remain faithful to our commitment to aid Zimbabwe. Zimbabwe has a democratically elected government and is seeking to maintain a multi-racial population. Aid is essential to Zimbabwe in meeting the economic problems of its early years of independence and in offering opportunity for all its communities.

Senator Inouye: What is the reason for requesting a $200 thousand military training program for Zimbabwe?

Secretary Schneider: Zimbabwe needs substantial assistance with its effort to modernize, unify and instill discipline into its army, which is made up of the two main former guerrilla groups and the former Rhodesian Army. Prime Minister Mugabe has decided to look to the West for substantial support for this effort. The U.S. IMET program is being used to train military personnel in specialised fields such as transportation, aviation, medicine, engineering, and logistics. An additional primary objective of the IMET program is to assist the Zimbabwe National Army (ZNA) in developing expertise and systems needed for effective management of its defense establishment. Other objectives of the program are to foster the development of the ZNA's own indigenous training capability, to promote U.S. military rapport with Zimbabwe's armed forces and to promote better understanding of the United States, including its people, political system, and other institutions.

Senator Inouye: Has the officer corps of the former Rhodesian Army left the service of the Government of Zimbabwe? This officer corps was one of the most highly skilled in the world, was it not? Is Zimbabwe incapable of training its own forces?

Secretary Schneider: I'm not really in a position to make a value judgment about the competence of the officer corps of the former Rhodesian Army. I do know, however, that many of these officers were unhappy over the prospects of living under majority rule government and decided to leave the country at independence and resettled in the United Kingdom and South Africa. Others have left since independence while some are probably contemplating leaving the service upon reaching retirement age. With the help of a large British Military Training and Advisory Team (BMATT), the ZNA is developing expertise in training its forces.

STANDARDS FOR DETERMINING THE SECURITY ASSISTANCE PROGRAM

Senator Inouye: Mr. Schneider, the Congressional Presentation Document states, "The Security Assistance Program considers the effectiveness of a country's own development efforts, its policies toward the U.S., its record of support for the United States in the United Nations and other international organizations, its human rights record and available resources." If measured by these standards, how is the country of Zaire to be judged?

Secretary Schneider: Zaire's own development program has been plagued by mismanagement and a budgetary crisis generated by falling export revenues. One of the central goals of our development assistance to Zaire is to help the GOZ increase the effectiveness of its development efforts. Zaire's human rights record has been checkered, but a dialogue between the GOZ and international human rights organizations has been established and some improvements have been achieved. The GOZ's policies toward the U.S. and its record of support for the United States in the United Nations and other international organizations have been excellent, making Zaire one of our most reliable friends in Africa. In terms of resources, Zaire is an immensely rich country but needs much foreign assistance in converting those resources into productive wealth.

Sentor Inouye: Is a country's support for the United States in the United Nations deemed to be more important than that country's human rights record?

Secretary Schneider: A country's performances on these criteria are both usually relative, and neither can be judged in isolation. Weighed with other factors, including a country's historical circumstances and its government's overall internal policy and foreign policy orientation, they help determine the tenor of bilateral relations and the quality of assistance we feel justified in considering. Certainly, either persistent grave abuses of human rights or consistently active opposition to U.S. interests in interational fora makes it unlikely, even in the balance, that we could justify the kind of support demonstrated by any form of concrete assistance. Conversely, we are most inclined to try to assist a country when its government combines a record of support for U.S. foreign policy interests in the UN with a positive human rights record.

SECURITY ASSISTANCE PROGRAM FOR ZAIRE

Senator Inouye: A major portion of U.S. security assistance programs for Zaire in the past has been the provision of C-130 aircraft. How many of Zaire's C-130s are currently operational? Is lack of spare parts the primary reason so many C-130s are inoperative?

Secretary Schneider: Only one of Zaire's five C-130s is currently operational. Two are grounded in Zaire for lack of spare parts. Two overhauled C-130s along with 14 additional engines and $5-6 million in spare parts are being held in Italy by the firm of Siai-Marchetti pending payment by Zaire of the more than $10 million balance owed the firm under a maintenance contract. Zaire has recently begun negotiations with Siai-Marchetti to resolve this impasse. Assuming that it is successful in recouping the impounded planes and equipment, we estimate that Zaire would still need at least $25 million over the next two years to maintain its five C-130s in proper flying condition.

Senator Inouye: The proposed FY 1984 program for Zaire is a departure from prior years: MAP grants take the place of FMS guarantees. Does this indicate that Zaire cannot afford to repay FMS loans? If that is the case, why does the Congressional Presentation suggest that Zaire "may request to purchase defense articles through FMS cash procedures or commercially?"

Secretary Schneider: We propose MAP grants for Zaire in FY'84 rather than additional FMS guaranteed credits because Zaire's overall debt service burden already exceeds its ability to satisfy all its creditors from its own resources. In these circumstances, both Treasury and OMB have consistently taken the position that additional security assistance provided to Zaire should be in the form of grants, rather than commercial-rate loans. MAP grants are used to finance FMS purchases.

We cannot rule out that Zaire may have other requirements -- in addition to those foreseen in our MAP request -- that it considers of sufficient priority to seek to acquire with its own funds. We are certainly not encouraging Zaire to make any additional large commercial or FMS cash purchases.

Senator Inouye: Is Zaire in arrears on prior-year FMS loan repayments? What is Zaire's record of repayment? Does it show prompt repayments made as scheduled or does it show protracted delays?

Secretary Schneider: Zaire is presently in arrears on its repayments on FMS loans in the amount of $18.4 million. During the past year Zaire has twice fallen under Brooke Amendment sanctions, most recently from January 1 to February 2, 1983. Since January, however, Zaire has been making regular payments against its arrears in order to avoid again becoming subject to sanctions.

FREE WORLD ASSISTANCE TO SOUTHWEST ASIA

Senator Inouye: Mr. Schneider, the Security Assistance Congressional Presentation Document indicates that our support for countries in the Southwest Asia/Persian Gulf region is prompted by our concern to maintain energy exports from that region to the Free World. What is meant by the Free World? To what extent are the members of the Free World contributing to the development of self-defense capabilities in the Southwest Asia/Persian Gulf area?

Secretary Schneider: The Free World refers to the United States, the Western allies, Japan, the ANZUS countries and Latin America. In another sense, the Free World refers to those countries that are not dominated by the Soviet Union.

Now as to what the Western countries are doing to assist the Southwest Asian countries to strengthen their self-defense capability, they -- and we -- are doing the same thing. They are providing those countries training, arms, and armaments at very attractive prices and credit terms.

I can tell you candidly that sometimes I wish they were not doing so much because our manufacturers have lost out on some sales we would have liked to make. For example, Kuwait is flying the French Mirage fighter, Pakistani infantrymen carry the German G-3 rifle and the Indian Air Force is flying the Britsh Jaguar.

Many of those countries want to diversify their defense relationship and do not want to depend exclusively on any one supplier. But I think that it is fair so say that if any country in Southwest Asia wants assistance in improving its security, there is no dearth of countries from the West ready and willing to help out. Of course, you know that the bulk of these sales, including our own, is on a cash or credit basis and not as a grant.

MOROCCO IN SOUTHWEST ASIA

Senator Inouye: How did you determine to include Morocco in Southwest Asia? As I look at a map, Morocco appears to be almost as close to the Straits of Florida as it is to the Straits of Hormuz.

Secretary Schneider: We recognize that geographically Morocco is not directly contiguous to the other Southwest Asian countries. Its inclusion is based on its strategic relationship to this area. Our overall ability to defend our interests in Southwest Asia depends on our ability to move men and supplies to the region in the event of a clear threat to those interests. To do so requires enroute access agreements allowing our planes to land and refuel. The agreement signed with Morocco last year granted us such contingency access. Accordingly, it is Morocco's direct and vital link to the operation of our overall Southwest Asian strategy rather than its geographic proximity that has caused us to include it in our Southwest Asian Security Assistance package.

MILITARY TRAINING ASSISTANCE TO ARGENTINA AND CHILE

Senator Inouye: Mr. Schneider, how do you justify the request for military training assistance to Argentina and Chile? Are these countries not presently engaged in a dispute over the Beagle Channel Islands?

Mr. Schneider: We have requested $50,000 each in IMET training for Argentina and Chile and in FY'84. These funds will not be distributed unless the Presidential certification required by Congress is made, thus ending the prohibition on military training to these two countries. The IMET programs would then provide professional career training in the United States for a limited number of military personnel. This would enhance future security cooperation.

The demarcation of the Beagle Channel remains a point of contention between Argentina and Chile. Both parties, however, continue to seek a settlement through the Papal mediation process and it is unlikely that this dispute will lead to armed conflict. In the event of certification, we would review any request carefully, bearing in mind our interest in maintaining balance and supporting a peaceful resolution to disputes in the region.

INITIATION OF ARGENTINE MILITARY TRAINING

Senator Inouye: How would NATO allies, specifically the United Kingdom, respond to our initiation of a military training relationship with Argentina?

Secretary Schneider: The United Kingdom is for obvious reasons the NATO ally most concerned about the United States military relationship with Argentina. The U.K. opposes United States arms sales to Argentina until that country formally agrees to end hostilities in the South Atlantic. We have not consulted with the British about military training, and, therefore, do not know what their reaction would be. We do not believe that a United States military training relationship with Argentina, if reestablished, would endanger British interests.

U.S. FORCES IN LEBANON

Senator Inouye: Mr. Schneider, rumors abound that the Department of Defense is becoming concerned about the cost of maintaining U.S. forces in Lebanon. Is there any intention of paying these costs out of foreign assistance funding?

Secretary Schneider: No. The cost of maintaining our forces in Lebanon are met from normal Department of Defense funds.

Senator Inouye: What is the reason for requesting $25 million emergency drawdown authority under Peacekeeping Operations? Is it to pay for U.S. forces in Lebanon?

Secretary Schneider: Our "drawdown" request is a separate matter. It is an effort to be prepared with the proper authority to respond rapidly to emergency peacekeeping situations in which a rapid drawdown of U.S. assets is deemed appropriate.

ESF PROGRAM FOR LIBERIA

Senator Inouye: Mr. Schneider, you are proposing a $35 million Economic Support Fund program for Liberia. The need for this assistance is attributed, in the Congressional Presentation Document, to the 1979-1981 increases in oil prices. With the recent, and accelerating, decline in oil prices, can we assume that the full $35 million is no longer required?

Secretary Schneider: As pointed out in the Congressional Presentation Document, the 1979-1981 increase in the price of oil was only one of many economic problems leading to Liberia's need for ESF. The primary cause of the economic decline was the downturn in the world markets for Liberia's major exports, iron ore, rubber, and timber. A heavy debt burden inherited from the previous government has also placed a strain on the Liberian economy. Finally, Liberia is still suffering from capital flight and a loss of business confidence stemming from the coup of 1980.

Our ESF program, carried out in close coordination with the IMF, has played a crucial role in preventing an economic collapse and political instability. The program has also provided the government of Liberia with the support it needed to enable it to implement difficult policy reforms and austerity measures. Any diminution of the program could threaten both the process of economic recovery and our substantial interests in Liberia.

SUDAN AND THE IMF

Senator Inouye: Mr. Schneider, I note that you propose to provide $120 million in grant ESF to Sudan. Is this assistance being proposed in conjunction with an IMF program? What are the terms and conditions of the IMF program for the Sudan? What roles have other donors played in the development of this program? Have private banks participated?

Secretary Schneider: Sudan's present IMF program, a one-year standby arrangement, will end three months into FY'84. While we cannot be certain, we fully expect Sudan will negotiate a follow-on program with the IMF to cover FY'84. Under the present standby arrangement, Sudan devalued its currency by 44 percent, raised the prices for petroleum products to free market values and agreed to restrict imports of some nonessential goods. The program also placed limits on borrowing by the Sudanese government and on the size of the budget deficit. Though the IMF negotiates its programs directly with Sudan, implementation of the last two standby arrangements has been dependent on Sudan's donors providing enough program aid to close the balance of payments gaps unfinanced by Sudanese and IMF resources. Debt servicing is a major claim on Sudan's foreign exchange. Since Sudan cannot even finance its essential imports without IMF and other resources, it is virtually impossible to service its debt. Creditors, including commercial banks, have recognized Sudan's inability to make more than token repayments and they have negotiated rescheduling agreements which take this reality into account.

BUREAU FOR INTERNATIONAL NARCOTIC MATTERS

STATEMENT OF DOMINICK L. DiCARLO, ASSISTANT SECRETARY, BUREAU FOR INTERNATIONAL NARCOTIC MATTERS, DEPARTMENT OF STATE

ACCOMPANIED BY:

CLYDE TAYLOR, DEPUTY ASSISTANT SECRETARY, BUREAU FOR INTERNATIONAL NARCOTIC MATTERS

JAMES VANWERT, EXECUTIVE DIRECTOR, BUREAU FOR INTERNATIONAL NARCOTIC MATTERS

INTRODUCTION OF ASSOCIATES

Senator KASTEN. Our next witness is Mr. Dominick DiCarlo, Assistant Secretary for the Bureau for International Narcotic Matters.

Mr. DiCarlo, your entire statement will be made a part of the record. So, what we would like you to do is proceed with a summary of your statement.

Mr. DICARLO. Thank you.

I would first like to introduce Mr. James VanWert seated to my left who is the Executive Director of the Bureau for International Narcotic Matters [INM], and to my right Mr. Clyde Taylor who is a Deputy Assistant Secretary.

BUDGET REQUEST

Mr. Chairman, in my opening remarks I will concentrate on the highlights of our budget request of $53,030,000 for fiscal year 1984. Most of the proposed increase of $13,030,000 over the 1983 request consists of $6,770,000 to reduce coca production in Bolivia and $5,445,000 to eradicate marihuana in Colombia, subject to agreements we hope to negotiate this year.

We propose to allocate $30,185,000 or 57 percent of our budget in Latin America, which is the single source of cocaine, the primary source of imported marihuana and the current source of about 36 percent of our heroin imports.

Our Colombian program request of $8,945,000 is based on our goal of successfully negotiating a marihuana eradication program and an expanded coca control program.

BOLIVIAN COCA CULTIVATION LEVELS

We are attempting to negotiate an eradication program to reduce Bolivia's enormous coca cultivation to levels required for legitimate purposes. Continued United States economic assistance is contingent upon Bolivian action to control illicit coca. We budgeted $900,000 in fiscal year 1983 to establish the basic program and believe the level necessary for a major crop control and interdiction program in fiscal year 1984 is $7,670,000.

We entered into an agreement with Peru on a coca eradication project in August 1981, concurrent with a 5-year rural development program sponsored by the Agency for International Development [AID]. We are disappointed by delays encountered in this project, and we were assured in January that Peru would proceed with the crop control program. We have budgeted $4,020,000 for fiscal year 1984, including support for Peruvian narcotic enforcement agencies.

MEXICAN NARCOTIC CONTROL PROGRAMS

The Bureau is requesting $8,500,000 to support Mexican narcotic control programs. Mexico once supplied the bulk of the heroin imported into this country, but the United States supported Mexican aerial eradication program has substantially reduced heroin production from its high levels in the midseventies. The Mexican Government reported spraying, from December 1981 to December 1982, 15,956 opium fields totaling 943 hectares and 11,046 marihuana fields, totaling 788 hectares.

PAKISTAN NARCOTICS CONTROL

More than half of the heroin entering the United States is refined from Southwest Asian opium. Because we do not have agreements with Iran and Afghanistan, for reasons unrelated to narcotics control, our efforts center on Pakistan as a producer, refiner, and transit point for opium and heroin.

The $3.55 million requested for Pakistan narcotics control in fiscal year 1984 provides greater support for the reduction of poppy cultivation and for enforcement efforts against heroin processing and trafficking. In 1982 we signed what we will hope will be a series of agreements with the Pakistani Government to curb opium poppy cultivation and to end heroin production in the Northwest Frontier Province.

The Government eradicated opium poppy in the Buner area in 1982, the first such effort in a merged area. In early 1982 the Government of Pakistan seized a heroin laboratory in the Northwest Frontier Province for the first time since 1978, overcoming armed tribal resistance. In late November tribal leaders directed the closing of two dozen heroin laboratories in the Khyber Agency after meetings with Government officials.

The INM-funded rural development project recently initiated in the Malakand Agency of the Northwest Frontier Province is designed to encourage farmers to adopt alternative crops and income sources and to provide infrastructure support in neglected areas so as to facilitate the enforcement of the Pakistani ban against opium poppy cultivation.

The agreement is that Pakistan will enforce the poppy ban in areas where developmental assistance is provided. Reports indicate that acreage under opium poppy cultivation in the area of our development project has declined substantially from the 1981 to the 1982 crop year as a result of Government enforcement efforts, inducements to cultivate alternative cash crops, as well as depressed opium prices.

MALAKAND PROJECT

The Malakand project. which will be funded for its third and final year in fiscal year 1984 is but one of several key growing areas in Pakistan. Our goal is enforcement of the Pakistani ban throughout the Northwest Frontier Province growing areas. It is expected that by fiscal year 1984 AID will be in the implementation stage of a similar narcotics related development project in another growing area. The AID project will also be supported with INM enforcement assistance.

Pakistan has also accepted poppy clauses which commit the Government to keep appropriate U.S. AID economic assistance project areas free of opium cultivation.

The Bureau continues commodity and training assistance to Pakistani narcotics enforcement agencies to upgrade their capabilities.

SOUTHEAST ASIA DRUG TRAFFICKING

The amount of heroin entering the United States from Southeast Asia was estimated at 10 percent of the total consumed, according to the DEA. The Golden Triangle produced 600 tons of opium in 1981 and 1982 crop years, well above its recent average.

There is potential for Southeast Asian traffickers to attempt to recapture a greater share of the U.S. heroin market. This high availability of Southeast heroin at low prices compels the Department to reemphasize its priority for crop control in discussions with these governments. However, our regional program must include interdiction and suppression of heroin laboratories, as well as crop control because we cannot operate a crop control program in Laos, because most poppy growing areas of Burma remain outside of government control and because location of heroin refineries near the Thai-Burma border has warranted and made such operations successful.

The Thai Government has mounted sizable military operations since January 1982 against the Shan United Army, the principal trafficking group on the Thai-Burmese border, and it is continuing its pressure against it and other trafficking groups with narcotics-targeted military companies permanently deployed in the area.

These actions have disrupted trafficking and refining activities. The Government also has been effective in reducing the availability of precursor chemicals used in converting opium to heroin which contributed to reduce production of heroin and morphine base. However, these chemicals are increasingly available from other sources in the region.

We will encourage tighter controls throughout the region on precursor chemicals. We will continue to support crop-control related development assistance projects where there is a concurrent Thai commitment to crop control. While the Thai Government has not yet eradicated opium poppy in areas where it has received crop substitution assistance, it has promised to produce a strategy for opium poppy control in early 1983. We have budgeted $2,750,000 for Thailand.

The $5,795,000 budgeted for Burma will increase support for the Burmese Air Force's capability to airlift ground forces engaged in poppy eradication and interdiction operations, expand training programs, and improve telecommunications. The Burmese report increased crop destruction, including areas in which the Burmese Communist Party is involved in trafficking.

UNFDAC

Since its founding in 1971 with U.S. sponsorship, the United Nations Fund for Drug Abuse Control [UNFDAC] has been a vehicle for implementation of crop control, enforcement, and demand reduction programs. The Fund, among other U.N. agencies, brings the prestige of the United Nations to the issue of narcotics control. It has carried out projects in some areas where the United States could not because of political or other considerations.

We have budgeted $2.5 million as our contribution to UNFDAC in fiscal year 1984. We are urging greater drug control efforts by Canada, Europe, and Japan, with emphasis on crop control in both Asian sectors and European support for an UNFDAC coca control program. An Andean project for coca control has a high priority with UNFDAC's Director. In fact, our increase requested for UNFDAC is premised on the belief the Fund can and should do more for coca control in South America.

In sum, we are pursuing the administration's strategy of increasing crop control and interdiction in the source countries. Our requested increase for fiscal year 1984 centers on the coca and marihuana threat from South America while expanding our efforts to reduce the influx of heroin from Mexico, Southwest and Southeast Asia.

In addition, we are stepping up our diplomatic and financial efforts to increase multilateral contributions to the U.N. programs which can result in more universally supported projects.

Thank you, Mr. Chairman.

[The prepared statement follows:]

PREPARED STATEMENT OF DOMINICK L. DICARLO
ASSISTANT SECRETARY
BUREAU FOR INTERNATIONAL NARCOTIC MATTERS—STATE

MR. CHAIRMAN:

In my opening remarks, I will concentrate on the highlights of our budget request of $53,030,000 for Fiscal Year 1984. Most of the proposed increase of $13,030,000 over the Fiscal Year 1983 request consists of $6,770,000 to reduce coca production in Bolivia and $5,445,000 to eradicate marijuana in Colombia, subject to agreements we hope to negotiate this year.

Latin America Summary

We propose to allocate $30,185,000 or 57 percent of our budget in Latin America, which is the single source of cocaine, the primary source of imported marijuana, and the current source of about 36 percent of our heroin imports.

Colombia produces about 79 percent of our marijuana supply, and up to 75 percent of our cocaine supply, and has been the major transit point for methaqualone entering the United States. Our Colombian program request of $8,945,000 is based on our goal of successfully negotiating a marijuana eradication program and an expanded coca control program.

With our support, Colombia seized 3,310 metric tons of marijuana in 1981, a 345 percent increase over 1980, and 66.4 million units of methaqualone, a 380 percent increase. In 1982, Colombian officials seized another 3,408.7 metric tons of marijuana, 41.3 million units of methaqualone, and 881.2 kilograms of cocaine. The manual eradication program supported by the Department of State resulted in the destruction of 8.5 million marijuana plants and 19.7 million coca plants during the same period. Colombia is beginning to control imports of base substances used to produce methaqualone while curbing exports of this drug.

We are attempting to negotiate an eradication program to reduce Bolivia's enormous coca cultivation to levels required for legitimate purposes. Continued U.S. economic assistance is contingent upon Bolivian action to control illicit coca. We budgeted $900,000 in FY 1983 to establish the basic program and believe the level necessary for a major crop control and interdiction program in FY 1984 is $7,670,000.

We entered into an agreement with Peru on a coca eradication project in August, 1981, concurrent with a five year rural development program sponsored by the Agency for International Development. We are disappointed by delays encountered in this project, and we were assured in January that Peru would proceed with the crop control program. We have budgeted $4,020,000 for FY 1984, including support for Peruvian narcotics enforcement agencies.

The Bureau is requesting $8,500,000 to support Mexican narcotic control programs. Mexico once supplied the bulk of the heroin imported into this country, but a U.S.-supported Mexican aerial eradication program has substantially reduced heroin production from its high levels in the mid-Seventies. The Mexican Government reported spraying, from December 1981 to December 1982, 15,956 opium fields, totalling 943 hectares and 11,046 marijuana fields, totalling 788 hectares.

Southwest Asia Summary

More than half of the heroin entering the United States is refined from Southwest Asian opium. Because we do not have agreements with Iran and Afghanistan, for reasons unrelated to narcotics control, our efforts center on Pakistan as a producer, refiner and transit point of opium and heroin.

The $3.55 million requested for Pakistan narcotics control in FY 1984 provides greater support for the reduction of poppy cultivation and for enforcement efforts against heroin processing and trafficking. In 1982, we signed what we hope will be a series of agreements with the Pakistani government to curb opium poppy cultivation and to end heroin production in the Northwest Frontier Province (NWFP). The government eradicated opium poppy in the Buner area in 1982 - the first such effort in a merged area. In early 1982 the GOP seized a heroin laboratory in the NWFP - for the first time since 1978 - overcoming armed tribal resistance. In late November, tribal leaders directed the closing of two dozen heroin labs in the Khyber Agency, after meetings with government officials.

The INM-funded rural development project recently initiated in the Malakand Agency of the NWFP is designed to encourage farmers to adopt alternative crops and income sources and to provide infrastructure support in neglected areas, so as to facilitate the enforcement of the Pakistani ban against opium poppy cultivation. The agreement is that Pakistan will enforce the poppy ban in areas where developmental assistance is provided. Reports indicate that acreage under opium poppy cultivation in the area of our Malakand Agency Development Project has declined substantially from the 1981-82 crop year, as a result of government enforcement efforts, inducements to cultivate alternative cash crops, as well as depressed opium prices. The Malakand project, which will be funded for its third and final year in FY 1984, is but one of several key growing areas in Pakistan; our goal is enforcement of the Pakistani ban throughout the NWFP growing areas. It is expected that by FY 1984 USAID will be in the implementation stage of a similar narcotics related development project in another NWFP poppy growing area; the AID project will be supported with INM enforcement assistance. Pakistan has also accepted "poppy clauses" which commit the government to keep appropriate USAID economic assistance project areas free of opium cultivation.

The Bureau continues commodity and training assistance to Pakistani narcotics enforcement agencies to upgrade their capabilities. A seizure of 396 kilos of heroin near Peshawar in December 1982 was the world's largest seizure of heroin, and part of over 1500 kilos seized by Pakistani authorities in 1982.

While controlling its own opium production, Turkey remains a key transit center for Southwest Asian opium and heroin, and we request $1 million to upgrade enforcement capabilities.

Southeast Asia Summary

The amount of heroin entering the United States from Southeast Asia is estimated at 10 percent of the total consumed, according to the Drug Enforcement Administration. The Golden Triangle produced 600 tons of opium in the 1981 and 1982 crop years, well above its recent average. There is potential for Southeast Asian traffickers to attempt to recapture a greater share of the U.S. heroin market. This high availability of Southeast Asian heroin at low prices compels the Department to re-emphasize its priority for crop control in its discussions with these governments. However, our regional program must include interdiction and suppression of heroin labs as well as crop control -- because we cannot operate a crop control program in Laos, and because most poppy growing areas of Burma remain outside of government control, and because location of heroin refineries near the Thai-Burma border has warranted and made such operations successful.

The Royal Thai Government has mounted sizeable military operations since January 1982 against the Shan United Army, the principal trafficking group on the Thai-Burmese border and is continuing the pressure against it and other illicit drug trafficking groups with narcotics-targeted military companies permanently deployed in the area. These actions have disrupted trafficking and refining activities. The Government has also been effective in reducing the availability of precursor chemicals used in converting opium to heroin, which contributed to reduced production of heroin and morphine base; however, these chemicals are increasingly available from other sources in the region. We will encourage tighter controls throughout the region on precursor chemicals. We will continue to support crop control related development assistance projects when there is a concurrent Thai commitment to crop control; while the RTG has not yet eradicated opium poppy in areas where it has received crop substitution assistance, it has promised to produce a strategy for opium poppy control in early 1983. We have budgeted $2,750,000 for Thailand.

The $5,795,000 budgeted for Burma will increase support for the Burmese Air Force's capability to airlift ground forces engaged in poppy eradication and interdiction operations, expand training programs, and improve telecommunications. The Burmese report increased crop destruction including areas in which the Burmese Communist Party is involved in trafficking.

INTERNATIONAL ORGANIZATIONS

Since its founding in 1971 with United States sponsorship, the United Nations Fund for Drug Abuse Control has been a vehicle for implementation of crop control, enforcement and demand reduction programs. The Fund, among other U.N. agencies, brings the prestige of the United Nations to the issue of narcotics control. It has carried out projects in some areas when the United States could not because of political or other considerations. We have budgeted $2.5

million as our contribution to UNFDAC in FY 1984, which equates to roughly 25 percent of the amount required for the planned program, a percentage that replicates other U.S. contributions to the United Nations.

We are urging greater drug control efforts by Canada, Europe and Japan, with emphasis on crop control in both Asian sectors and European support for an UNFDAC coca control program. An Andean project for coca control has a high priority with UNFDAC's director. In fact, our increase requested for UNFDAC is premised on the belief the Fund can and should do more for coca control in South America.

Summary

In sum, we are pursuing the Administration strategy of increasing crop control and interdiction in the source countries. Our requested increase for Fiscal Year 1984 centers on the coca and marijuana threat from South America, while expanding our efforts to reduce the influx of heroin from Southwest and Southeast Asia. In addition, we are stepping up our diplomatic and financial efforts to increase multilateral contributions to U.N. programs which can result in more universally supported projects.

COLOMBIA AND BOLIVIA PROGRAM

Senator **KASTEN**. Mr. DiCarlo, thank you.

You indicated that the bulk of the increases that you are asking for are in programs for Colombia and Bolivia. Frankly, a 45-percent increase is a lot more than we are seeing in any of these programs. The increase, I understand you gave a justification for it, but you said that the work in Colombia and Bolivia, in particular, are contingent upon ongoing negotiations.

I assume that the funding level assumes that the negotiations go successfully. If the negotiations fall apart, as they have in the past, how much money could you save? In other words, would the 45-percent increase be less if you are not successful in negotiating with these two countries?

Mr. **DICARLO**. Sir, we would anticipate that we would straightline the programs in those countries if our negotiations are not successful in producing arguments on additional programs.

Senator **KASTEN**. In addition to the work in Bolivia and with reference to the coca production control, AID is asking for funds for coca production control. You talked very briefly about that. How are your efforts coordinated with theirs, and what kind of criteria are you using, and how does your program differentiate from what they are doing?

Mr. **DICARLO**. Well, we work together in South America, for example, in Peru. We have a marriage between the AID effort and the INM effort. We have a joint program going on in the Upper Huallaga Valley, which I mentioned in my statement briefly. In that 5-year project where AID is putting in $18 million and INM $15 million for the enforcement aspect of a development project that is sponsored by AID. So there we work together. We work together and their assistance goes along with progress made in enforcement and vice versa. So we have benchmarks in the program, we work together very closely in the program and it is a unified single project in effect.

CONTRIBUTION TO UNFDAC

Senator **KASTEN**. Lastly, you are requesting a 25-percent increase in our voluntary contributions to the United Nations Fund for Drug Abuse Control, and you referred to the work they are doing. Are other donors also increasing their contributions by 25 percent?

Mr. **DICARLO**. I don't know the exact statistics, but we know that we are no longer No. 1 in contributions to UNFDAC. The Federal Republic of Germany is contributing more money, I believe, than the U.S. Government will be in this year. There are indications that the Swedish Government will contribute more. I think the biggest breakthrough we have is the interest that is now being shown by some European governments in our South American programs. Where several years ago they had no interest in cocaine, we have very strong indications that the Italian Government will contribute substantial money to UNFDAC for coca control programs in South America. We have heard figures up to $40 million over a 3-year period.

Senator **KASTEN**. I don't know off of what base they are coming——

Mr. **DiCarlo**. Off of a base of about $300,000.

DONOR CONTRIBUTIONS

Senator **Kasten**. Well, that is significant then. It seems that if we are going to be asked to increase our contribution by 25 percent that other donors ought to also be increasing their contribution by roughly 25 percent.

I wonder if you could provide for the record the amounts and the proposed amounts of each of the donors to the Fund so we could take a look at those percentages.

Mr. **DiCarlo**. We will get those records and present them for the record, sir. But as far as the Italian contribution is concerned, the representatives of the Italian Government are now going to South America to discuss some of these proposals. It was very actively discussed at the Commission on Narcotic Drugs in Vienna, and we consider this a breakthrough. Although I am sure you are not going to get uniformity in increases in contributions, I don't think we would want to be tied to the increase that that government might have if they do produce $40 million for the United Nations.

Senator **Kasten**. Well, if you can provide us with that information it would be helpful.

[The information follows:]

STATUS OF CASH CONTRIBUTIONS TO UNFDAC

UNFDAC budgets are planned and expended on a calendar rather than a fiscal year basis. We do not yet know the total 1983 contribution. Moreover, it is not possible to predict amounts that countries will contribute or are planning to contribute as of January 1984. We have been told, however, that Italy, the FRG, the United Kingdom, and Sweden plan to increase their contributions in both 1983 and 1984. The Italian Government has stated that it would be willing to provide up to $40 million over three years to support effective sub-Andean projects efforts. Moreover, the United States request for the 25 percent increase in fiscal year 1984 is predicated on our intent to earmark additional funds for the South American drug control projects, and to return our level of contribution closer to prior year amounts.

Attached is the UN record of actual cash contributions from 1978 through 1982; the figures reflect cash received, not obligations or pledges for multi-year efforts. It should be noted that 14 countries have increased their cash contributions more than 25% between 1981 and 1982:

Egypt
Germany
Italy
Malaysia
Malta
Norway
Philippines
Qatar
Saudi Arabia
Singapore
Sweden
Tunisia
Turkey
Cameroon

Attachment: As stated

UNITED NATIONS TRUST FUND FOR DRUG ABUSE CONTROL

(In US dollars)

	1978	1979	1980	1981	1982
Kenya	-	6,400	-	6,400	4,615
Kuwait	5,000				
Libyan Arab Jamahiriya	-	10,000	-	-	-
Liechtenstein	1,000	1,000	-	-	-
Madagascar		2,034	2,366		
Malaysia	-	2,000	2,000	2,000	5,000
Malta	516	277	287	252	506
Mauritius	500	500	500	487	-
Mexico	-	-	4,000	1,937	2,003
Morocco	1,000	3,000	3,000	3,000	3,000
New Zealand	32,130	36,776	35,280	38,054	28,219
Nigeria	8,778	-	-	-	-
Norway	2,477,802	264,946	1,194,252	472,604	914,426
Oman	-	997	-	-	-
Pakistan	1,003	-	-	1,007	1,007
Philippines	-	-	-	-	2,000
Portugal	1,000	1,000	1,000	6,000	-
Qatar	-	10,000	10,000	-	20,000
Korea, Republic of	1,500	2,000	2,000	2,000	2,000
San Marino	1,000	-	-	-	-
Saudi Arabia	250,000	-	-	25,000	50,000
Senegal	3,155	-	-	-	-
Singapore	1,000	-	-	-	1,000
South Africa	5,737	6,162	6,159	6,384	4,397
Sri Lanka	500	-	-	-	-
Sweden	535,070	52,225	471,586	55,970	813,915
Switerzland	-	62,500	56,818	50,416	42,254
Thailand	5,000	-	-	-	-
Togo	-	-	-	452	-
Tunisia	2,338	2,459	2,492	734	2,711
Turkey	-	-	-	-	10,000
Sub-Total Page 2	3,334,029	464,276	1,791,740	672,697	1,907,053
United Arab Emirates	-	3,000	-	-	-
United Kingdom	-	113,575	116,400	92,750	89,500
United Republic of Cameroon	-	-	-	-	1,703
United States of America	3,000,000	3,000,000	2,120,000	430,000	-
Venezuela	2,000	2,000	2,000	2,000	2,000
Yugoslavia	-	-	-	18,000	-
Sub-Total	3,002,000	3,118,575	2,238,400	542,750	93,203
TOTAL	7,482,756	4,674,524	6,481,781	3,221,155	5,831,670

Status of Cash Contributions Received
as at 31 December 1982
UNITED NATIONS TRUST FUND FOR DRUG ABUSE CONTROL

(In US dollars)

	1978	1979	1980	1981	1982
Algeria	3,000	-	-	-	-
Argentina	8,000	11,000	10,000	10,000	6,700
Australia	99,820	123,313	575,675	411,795	132,750
Austria	48,872	56,719	63,839	59,047	69,081
Belgium	-	25,000	25,000	24,988	25,000
Bahamas	500	1,000	500	500	500
Barbados	-	250	250	250	250
Benin	-	-	-	-	1,667
Bolivia	-	-	1,000	1,000	-
Brazil	5,000	5,000	5,000	5,000	5,000
Canada	178,571	87,719	-	210,084	194,311
Chile	2,000	3,000	3,000	3,500	4,000
Denmark	219,933	28,022	27,383	20,187	18,553
Egypt	1,000	-	-	-	1,000
France	100,000	100,000	100,000	86,445	92,041
Finland	-	26,211	26,641	20,000	23,203
Germany, Federal Republic	247,824	268,928	1,150,086	697,675	2,791,317
Greece	2,000	2,000	2,000	1,918	2,000
Hong Kong	21,607	19,996	20,080	18,315	17,129
Iceland	2,500	3,000	3,000	3,200	3,200
India	-	7,000	7,000	7,000	7,000
Indonesia	-	1,000	-	-	-
Iran	-	9,942	-	4,773	4,000
Iraq	-	5,186	4,759	5,022	-
Ireland	5,000	5,000	-	-	-
Italy	-	-	124,339	108,108	132,151
Jamaica	1,100	600	-	-	561
Japan	200,000	301,787	302,089	306,901	300,000
Sub-Total Page 1	1,146,727	1,091,673	2,451,641	2,005,708	3,831,414

Senator **Kasten**. Senator Leahy, do you have any questions?

Senator **Leahy**. No, Mr. Chairman.

Senator **Kasten**. Mr. DiCarlo, thank you. We look forward to working with you during the year and appreciate your testimony.

Mr. **DiCarlo**. Thank you very much, Mr. Chairman.

SUBMITTED QUESTIONS

Senator **Kasten**. The committee has additional questions which we will submit for your response.

[The following questions were not asked at the hearing, but were submitted to the Department for response subsequent to the hearing:]

QUESTIONS SUBMITTED BY SENATOR KASTEN

SALARY SUPPLEMENTS IN MEXICO

Senator Kasten: Your budget includes no funds for salary supplements in Mexico. Can you assure the Committee that you will not be requesting such funds via a reprogramming in fiscal year 1983 or in fiscal year 1984?

Mr. DiCarlo: Our budget request, which omits any support for salary supplements, anticipates presently known assistance requirements to sustain an effective narcotics eradication program. Should any unanticipated need materialize which is critical to the program, INM will, of course, discuss the merits of any reprogramming requests with the Committee.

CORRUPTION OF BOLIVIAN OFFICIALS

Senator Kasten: How confident are you that high ranking officials in the Bolivian Government are no longer involved in illicit narcotic activities?

Mr. DiCarlo: We are reasonably confident that senior officials of the Bolivian government are not involved in illicit narcotic activities. These officials are generally aware of the serious economic and social consequences of illicit narcotics and the harm that can be done to Bolivia's international image. Senior military officers in the previous military government who were implicated in narcotics have been removed.

QUESTIONS SUBMITTED BY SENATOR INOUYE

INTERNATIONAL NARCOTICS CONTROL
BOLIVIA

Senator Inouye: Mr. DiCarlo, the amount you have budgeted for a major crop control and interdiction program in Bolivia in Fiscal Year 1984 is $7,670,000. I assume $900,000 of this amount is for what you term "the basic program." Is that correct?

Mr. DiCarlo: The $900,000 figure is the amount requested for Bolivia for Fiscal Year 1983, and represents the initial funding for two new projects -- Narcotics Control (Police) and Coca Control, as well as funding for Program Development and Support (operational costs and administrative support).

Senator Inouye: What are the cost elements of this basic program?

Mr. DiCarlo: The $900,000 budgeted for the Bolivian program in FY 1983 was for use as follows. The Program Development and Support Project (PD&S) was funded at the same level as in FY 1982 ($240,000) and was intended to finance U.S. and non-U.S. personnel salary and expense costs, short-term temporary duty costs, and other general operational and administrative expenses. In this regard, PD&S covers the costs of the Narcotics Assistance Unit of our Embassy in La Paz. The Narcotics Control Project ($260,000) is a new enforcement project designed to develop within the National Directorate for the Control of Dangerous Substances (Spanish acronym: DNCSP) the police capability to control effectively the cultivation of coca and to restrict production and trafficking of coca and its illicit derivatives through the provision of technical advisors and project support commodities. The new Coca Production Control Project is designed to support GOB efforts to limit coca production to that required for licit domestic consumption and export. This project is also intended to provide resources to assist in the elimination of illicit coca production through the voluntary and involuntary destruction of non-licensed plantations, and to control the sale of coca in established markets and its movement between markets.

Senator Inouye: The remaining $6,670,000 would be for a new crop control and interdiction program. Is that correct?

Mr. DiCarlo: For FY 1984, the Department has requested a total of $7.67 million to support the continuation of new projects initiated in FY 1983. Therefore, it would be incorrect to say that $6.67 million is for a new crop control and interdiction program.

Senator Inouye: Has the Government of Bolivia agreed to the terms of this eradication program?

Mr. DiCarlo: The Government of Bolivia has not yet agreed to the terms for an eradication program. The DNCSP has just completed its own draft document. Negotiations to reconcile these documents are expected to begin soon.

Senator Inouye: If not, what do you see as the principal obstacles to an agreed program?

Mr. DiCarlo: The principal obstacles to an agreed program will be the constraints on the GOB stemming from the very nature of the coca problem in Bolivia. Coca cultivation is open and pervasive at many levels: small farmers grow subsistence amounts of food crops and coca as a cash crop; more prosperous farmers grow marketable amounts of food crops and coca as a cash crop. Its cultivation has expanded dramatically in the past several years during which little control was exercised by the GOB. Coca cultivation is almost exclusively responsible for fueling any prosperity in agricultural regions. Trafficking is almost as pervasive as coca cultivation. Nevertheless the GOB has committed itself to implement a narcotics control program, and we fully expect to reach agreement on the specific projects soon.

Senator Inouye: How long have you been negotiating this program with the Government of Bolivia?

Mr. DiCarlo: We have been discussing the need for such a program with the Siles government since it came into office in October 1982, and we expect to begin actual negotiations on the specific projects soon.

Senator Inouye: Does the Government of Bolivia now have a unified control and interdiction program? By that, I mean to ask is there one central office or bureau for narcotics control in Bolivia?

Mr. DiCarlo: Senior officials of the Bolivian Government have promised in talks since January that a high-level narcotics commission would be appointed soon to coordinate the planning and implementation of a narcotics control program. The Director-designate of the commission has been named, and the implementing decree establshing the commission was reportedly approved by the Cabinet on March 25. In the interim we have been working with the narcotics police which has been given the immediate responsibility of drafting an initial control program.

INTERNATIONAL NARCOTICS CONTROL
MEXICO

Senator Inouye: Mr. DiCarlo, do you believe the amount you have budgeted for assistance to Mexico is adequate in view of Mexico's sharpening economic difficulties?

Mr. Di Carlo: INM believes the amount budgeted in FY 1983 and 1984 for aviation maintenance is adequate to continue to maintain the Mexican air fleet at its current high availability rate. We are concerned, however, that Mexico's economic crisis may affect Mexico's contribution to the eradication program (which includes fuel and personnel costs such as salaries and training of maintenance and administrative personnel). The new Mexican Attorney General assured us in January that Mexican support of the eradication program would be continued at existing levels for the present, while the government reviewed its proposed 1983 budget and took steps to improve the cost effectiveness of the eradication program. One example of cost reduction was the decision of the Mexican Attorney General's Office that the INM funded pilot flight safety recertification program could be assumed by the U.S. contractor handling aircraft maintenance, rather than by a separate contractor. This action resulted in FY 1983 savings of $350,000, which we reprogrammed to support eradication program field operations. The Mexicans also are planning to replace non-Mexican technicians with Mexican citizens to reduce personnel costs. We are in close contact with the Mexican Attorney General's Office and regularly discuss program financing and administration. We will monitor closely the possible impact of any budgetary constraints on the program's effectiveness.

Senator Inouye: How much did the Mexican Government budget for narcotics control programs in fiscal year 1983?

Mr. Di Carlo: The Mexican Attorney General's Office projected a 1983 budget which has a dollar equilvalent of $10 million, at the current exchange rate. The major components of the budget are personnel costs (approximately $3.6 million), fuel (approximately $3.2 million), and aircraft insurance (aproximately $2.9 million). The budget if approved would be adequate to continue the eradication program at 1982 activity levels. The De La Madrid administration has been studying 1983 budget proposals but has apparently not made its final decision on the Attorney General's budget.

Senator Inouye: How much will it be able to budget in fiscal year 1984?

Mr. Di Carlo: Since the Mexican government is apparently still considering its 1983 budget, it would be premature to contemplate how much might be budgeted in 1984.

Senator Inouye: At one time, U.S. International Narcotics Control was paying salary supplements to Mexicans who were involved in narcotics control programs in order to compete with higher wages in the private sector. Does this practice continue?

Mr. Di Carlo: We were able to discontinue salary supplements in 1982. Our assistance has since been limited to the key maintenance program.

Senator Inouye: How much will you provide in salary supplements in fiscal year 1984?

Mr. Di Carlo: Our budget request does not include any FY 1984 funds for salary supplements.

Senator Inouye: In consequence of Mexico's economic problems and the decline of private-sector activity, are salary supplements justified?

Mr. Di Carlo: We believe salary supplements were justified in deterring skilled pilots (as well as mechanics) from seeking higher paying jobs in the private sector. The country's economic situation continues to cause skilled personnel (particularly mechanics) to seek employment elsewhere, rather than to remain with the Attorney General's Office. We believe the loss of skilled personnel and the investment required to train new personnel reduces the cost effectiveness of the program.

INTERNATIONAL NARCOTICS CONTROL
PERU

Senator Inouye: Mr. DiCarlo, how much are you budgeting for narcotics enforcement activities in Peru in Fiscal Year 1983?

Mr. DiCarlo: The total FY 1983 budget is $3,600,000. We have requested $1,550,000 for narcotics interdiction and enforcement activities, $1,600,000 for Coca Production Control and $450,000 for Program Development and Support.

Senator Inouye: Do you expect to obligate and disburse the full amount?

Mr. DiCarlo: INM expects to obligate the full FY 1983 amounts and disburse the funds as the projects are implemented.

Senator Inouye: You candidly admit to delays in the Peruvian project. Are you confident that you will be able to obligate the $4 million requested in Fiscal Year 1984?

Mr. DiCarlo: We are confident that we will be able to obligate the full $4 million that we have requested. The delays that

I have mentioned are specifically related to the Coca Production Control Project, not to the enforcement and interdiction projects with the Peruvian Investigative Police and the Guardia Civil or the Program Development and Support Project. These three projects are currently on schedule. The delays experienced in the Coca Production Control Project should cease now that the project headquarters, with some staff, has been established in the Upper Huallaga Valley.

Senator Inouye: Suppose you were unable to obligate the full amount requested for Peru in Fiscal Year 1984. How would you propose to use these funds? Are there needs elsewhere which can be identified at this time?

Mr. DiCarlo: If we were unable to obligate the full amount requested for Peru, we would return the funds to the Treasury unless presently unanticipated opportunities for effective drug control assistance materialized elsewhere. In that case, we would seek from the Congress concurrence in a reprogramming of such funds.

INTERNATIONAL NARCOTICS CONTROL
PAKISTAN

Senator Inouye: Mr. DiCarlo, you have requested $3,550,000 for Pakistan narcotics control in fiscal year 1984. What portion of this would be spent on enforcement?

Mr. DiCarlo: INM has budgeted $800,000 for enforcement. Communications equipment, vehicles and other investigative commodities will be procured for the Pakistan Narcotics Control Board's joint task force units which were recently established in Karachi, Lahore, Peshawar, Quetta and Rawalpindi to combat illegal narcotics trafficking, as well as for enforcement units located at air and sea ports and along international border areas. These funds will also support training assistance to Pakistani law enforcement agencies, both in Pakistan and in the U.S., and provide equipment for their Narcotics Training Center. The actual training is provided by DEA and U.S. Customs.

Senator Inouye: Does Pakistan engage in enforcement efforts in areas where there is no U.S. development assistance program?

Mr. DiCarlo: Yes. Pakistani enforcement efforts are carried out where narcotics activities are found irrespective of whether they are in U.S. development assistance areas. A good example is Karachi, where the Karachi Narcotics Task Force Unit, which became operational in January 1982, arrested 34 persons and seized 31 kilos of heroin, 21 kilos of opium, 950 kilos of hashish, and 58,000 mandrax tablets, during its first six months of operation. On the production side, successful enforcement and eradication efforts have been made this year and last in the UNFDAC development area in Buner.

Senator Inouye: Has the Government of Pakistan eradicated poppy cultivation in all but the Northwest Frontier?

Mr. DiCarlo: For all practical purposes, poppies are cultivated only in the NWFP. There is slight evidence that some opium poppies are grown in Baluchistan for local domestic use, but the amount is not significant.

Senator Inouye: Has Pakistan surpassed the Golden Triangle as the biggest source of heroin entering the United States?

Mr. DiCarlo: Southwest Asia (Pakistan, Afghanistan and Iran) provides an estimated 55 percent of the heroin entering the U.S. Since Pakistan produced a bumper crop of 800 metric tons in 1979, it has become the primary source country for heroin destined for the U.S and Western Europe. Even though Pakistan's opium production was down to 50 - 80 metric tons during the past two years, it is estimated that a stockpile of over 200 tons remains. Additionally, an underdetermined amount of opium is smuggled through Pakistan from Afghanistan to Iran, Turkey, Europe and the U.S. Heroin from the Golden Triangle enter- ing the U.S. was estimated at 10 - 15 percent of the total in 1982.

INTERNATIONAL NARCOTICS CONTROL
TURKEY

Senator Inouye: Mr. DiCarlo, does the United States have a bilateral narcotics control agreement with the Government of Turkey?

Mr. DiCarlo: The U.S. has two bilateral agreements with the GOT which provide for commodity assistance and training for the Turkish National Police (TNP) and the Jandarma, the border and rural police. The agreements are identical and provide for replenishment of funds, at an unspecified level, on a yearly basis.

Senator Inouye: If so, when did this agreement take place?

Mr. DiCarlo: The agreement with the TNP was signed in August 1980 and with the Jandarma in July 1981.

Senator Inouye: How do you propose to obligate the $1 million requested for narcotics control enforcement in Turkey?

Mr. DiCarlo: In conformity with our programming system, INM will review Embassy budget requests that have been discussed and planned with the Turkish government. Should the request be well justified, INM will allot funds for projects with those organizations the Embassy believes to be most committed and responsive to drug control. Through FY 1982, the TNP has received $1,100,000 and the Jandarma $1,400,000. Our assistance has been used for vehicles, communications and laboratory equipment, and aircraft spare parts.

Senator Inouye: To what agency or bureau will it be provided?

Mr. DiCarlo: It is provided to the Ministry of Foreign Affairs and disbursed to the Turkish National Police, which is responsible for law enforcement in urban areas and the Jandarma, which has similar responsibilities in rural areas and along the borders, particularly with Syria, Iraq, and Iran. Both agencies have the personnel resources needed to use and maintain the equipment with a minimum of training or advice from U.S. technicians. The GOT has not yet indicated how it wishes to distribute our assistance in FY 1984, but I would suspect it would again provide more funds to the Jandarma than the TNP.

Senator Inouye: What is the relationship, if any, of this agency to the Ministry of Defense?

Mr. DiCarlo: The TNP and the Jandarma come under the Ministry of Interior. Only during time of war would they come under the Ministry of Defense.

INTERNATIONAL NARCOTICS CONTROL
SOUTHEAST ASIA

Senator Inouye: Mr. DiCarlo, you have stated that the Golden Triangle area of Southeast Asia produced a record 600 tons of opium in the 1981 and 1982 crop years. What would be the weight total for heroin converted from this amount of opium?

Mr. DiCarlo: A ratio of 10 to 1 is normally used to convert opium to heroin; i.e. ten parts of opium make one part of heroin. Thus, theoretically, were all 600 tons of opium gum coverted, 60 tons of heroin would be available from the Golden Triangle. This does not occur. Some is lost, some seized and a significant but undetermined amount is consumed in the area as opium.

Senator Inouye: What were the principal country destinations for this opium?

Mr. DiCarlo: The Southeast Asian countries of the Golden Triangle and those bordering it have significant heroin user populations. Conservative figures estimate that the heroin using populations of Thailand, Burma, and Malaysia consume as much as 14 to 15 metric tons of heroin in a year. DEA estimates that less than 15 percent of the heroin entering the U.S comes from the Golden Triangle. The remaining heroin from the area is consumed in Hong Kong, Australia and Western Europe.

Senator Inouye: Are these countries contributing on a bilateral basis to the control of narcotics production in Southeast Asia? What is their contribution?

Mr. DiCarlo: The following countries have bilateral programs in Thailand. The U.S. program totals $2.4 million for FY 1983. Australia has provided $6.9 million in narcotics related development assistance projects beginning in 1982 for a five year period. The Federal Republic of Germany has provided $2.5 million over a three year period, starting in 1981. Canada has provided $200,000 for narcotics related projects in health and crop substitution and in training. The United Kingdom has provided commodities, a coffee growing expert (crop substitution) and $50,000 annually to a Thai law enforcement program. New Zealand, France and Japan provide funds for educational grants and other crop substitution projects.

The primary source for narcotics assistance in Burma is the United Nations. Norway has provided development aid through the United Nations Fund for Drug Abuse Control for narcotics related projects. The U.S. has the only bilateral narcotics program in Burma ($6 million in FY 1983).

BUREAU FOR REFUGEE PROGRAMS

STATEMENT OF JAMES N. PURCELL, JR., DIRECTOR, BUREAU FOR REFUGEE PROGRAMS, DEPARTMENT OF STATE

ACCOMPANIED BY:

ROBERT L. FUNSETH, SENIOR DEPUTY ASSISTANT SECRETARY, BUREAU FOR REFUGEE PROGRAMS

ARTHUR E. DEWEY, DEPUTY ASSISTANT SECRETARY, BUREAU FOR REFUGEE PROGRAMS

ROZANNE OLIVER, DIRECTOR, OFFICE OF PROGRAM AND BUDGET PLANNING, BUREAU FOR REFUGEE PROGRAMS

INTRODUCTION OF WITNESS AND COLLEAGUES

Senator KASTEN. Our next witness is Mr. James Purcell.

First of all, thank you for your patience. We ended up by spending a little bit more time than we thought.

Mr. James Purcell is the Director of the Bureau for Refugee Programs.

Mr. Purcell, we have a copy of your statement. We would hope in the interest of time you could summarize your statement. The complete statement will be made a part of the record and that will give us an opportunity for questions.

You might introduce those people who you have chosen to accompany you.

Mr. PURCELL. Yes, sir.

Mr. Robert Funseth is our Senior Deputy Assistant Secretary for Management. Mr. Eugene Dewey, Deputy Assistant Secretary for Relief Programs, and Rozanne Oliver, our Director of Program and Budget Planning.

I will summarize briefly our request. It is a pleasure for me to appear before you. This is my first appearance as the Director of the Bureau, having been appointed by the Secretary this past October.

BUDGET REQUEST

Our request is for $344.5 million, which is about $50.5 million less than the continuing resolution level for 1983. About half of that reduction is made up of reductions in admissions to the United States. We are requesting 72,000 admissions this year compared to the 90,000 in fiscal year 1983. The other $25 million reduction occurs in our refugee relief programs. We are requesting $197.5 million which we believe is approximately 25 percent of international and private voluntary organization relief requirements around the world.

Other activities include our contributions to the International Committee of the Red Cross [ICRC], to the Intergovernmental Committee for Migration, and $12.5 million for Jewish refugees going to Israel.

Our administrative expenses are $7.6 million, which is basically the same level as in 1983. We are pursuing, as in the past, programs to help what we calculate are around 7 million refugees worldwide.

Our policy is to provide initial care and relief to refugees once they arrive in asylum countries and to pursue programs for solutions to their problems either through repatriation to their countries of origin, settlement in the region, or, as a last resort, third-country resettlement. In that regard we are trying to minimize admissions to the United States and are trying to broaden the burden sharing with other resettlement nations.

I will stop here and entertain your questions, Senator.

[The prepared statement follows:]

PREPARED STATEMENT OF JAMES N. PURCELL, JR.
DIRECTOR
BUREAU FOR REFUGEE PROGRAMS

Mr. Chairman and Members of the Committee:

It is a pleasure to appear before you today to present the Department of State's request for the Migration and Refugee Assistance Appropriation for FY 1984. Accompanying me are Robert L. Funseth, Senior Deputy Assistant Secretary of the Bureau, Arthur E. Dewey, Deputy Assistant Secretary, and Rozanne Oliver, Director of the Office of Program and Budget Planning.

Our budget request for FY 1984 is $344.5 million. This figure is a decrease of $50.5 million from the FY 1983 Continuing Resolution level of funding. Half of this decrease has been made possible by the success of our efforts to reduce refugee admissions to the United States, while continuing to respond to humanitarian needs and U.S. foreign policy interests and responsibilities.

The other half we credit to the absence of such large-scale refugee crises as were experienced in past years, such as the surge of Vietnamese boat people and the Somalia crisis, as well as policy and management initiatives that are containing or reducing the costs of responding to ongoing refugee relief problems. Furthermore, we have progressed in our efforts to "internationalize" the world's response to refugee problems -- that is, to encourage broader participation by other nations in supporting refugee programs, especially other developed countries which are able to carry a bigger share of the burden. However, we remain aware that the current decrease in refugee program needs can be reversed overnight should major conflicts arise in any of the troubled areas of our world.

Our budget request is presented in four major subdivisions. The first area is refugee admissions, with a request of $117.0 million. This figure is about 34 percent of our total request and a decrease of about $25 million from the FY 1983 funding level. The request is based on the admission of 72,000 refugees to the U.S. in FY 1984, representing a reduction of 18,000 from the FY 1983 consultations level, and one-third the 217,000 consultations level of FY 1981. The 72,000 projected admissions are divided among 46,000 East Asians, 15,000 from the Soviet Union and Eastern Europe, 6,000 from the Near East and South Asia, 2,000 from the Western Hemisphere, and 3,000 from Africa.

Activities required to admit refugees include four areas. First, we request $20.5 million for processing of refugees prior to entry. This includes funding the Joint Voluntary Agency Representatives for processing services in Southeast Asia, Pakistan, and some locations in Africa, as well as funding for the voluntary agencies in Europe. Also included are funding of some necessary management services by the voluntary agencies in the U.S., such as a data information system on refugee admissions, and American Red Cross tracing activities.

Second, we are requesting about $46.6 million for capitalization of transportation loans through the Intergovernmental Committee for Migration for refugees admitted to the U.S. This takes into account a projected $8 million in loan repayments in FY 1984.

Reception and placement grants to voluntary agencies which provide initial reception and placement services to newly admitted refugees is the third area with a request of about $39.5 million. This level provides for a small increase over our per-capita amounts allowed in FY 1983 in order to cover the effects of inflation.

Finally, we are requesting about $10.4 million for the training and orientation of refugees admitted to the United States. We currently have in place a sound program of English language and cultural orientation training for Indochinese refugees awaiting admission in the Refugee Processing Centers. We are requesting funding of program improvements to address the additional training needs of Indochinese refugees least likely to succeed in the United States -- those who are pre-literate or who have very low levels of learning. In addition, we propose extending our training programs to some other groups of refugees where economically feasible. It is our conclusion that the very small program increases in this area will result in significant savings in domestic welfare costs because refugees enter much better prepared for life in the United States, especially to take entry-level jobs.

Funding requested for relief assistance to refugees overseas is $197.5 million, about 57 percent of our total request and a decrease of $25.8 million from the FY 1983 funding level. Three years ago, the composition of our request was about two-thirds for admission and one-third for relief assistance. We have now reversed these percentages reflecting the determination of the Administration to seek solutions to refugee crises other than admission to the U.S. We have sought to address refugee needs through assistance in the countries of first asylum and through pursuit of repatriation, resettlement in countries of asylum, or resettlement in third countries other than the U.S. We are pleased that we have succeeded in doing so while continuing to meet our humanitarian responsibilities through the admission to the U.S. of those who need this solution and are eligible under our laws.

The relief assistance category encompasses a number of programs, particularly relief programs identified by geographic area. In addition, we plan to maintain a small fund to foster resettlement opportunities other than resettlement in the United States, including voluntary repatriation and resettlement in place.

Relief for Indochinese refugees in Southeast Asia is substantially reduced over previous years at our request level of $21.7 million, but remains crucial to support the efforts of the UNHCR and other agencies to address the needs of about 220,000 refugees in UNHCR camps and the quarter of a million Kampuchean refugees who remain in a precarious situation on the Thai-Kampuchean border.

African relief assistance is also reduced from our FY 1983 request to a request of $52.8 million for FY 1984. This reflects not a reduced commitment to the problems of African refugees, but rather the fortunate circumstances which have decreased the needs in some key areas, such as Somalia. Furthermore, a shift in emphasis of relief programs in Africa towards encouraging an early return to economic independence of refugees in countries of asylum is expected to yield substantial benefits for refugee well-being and host country economic and political stability, besides the dollar savings in the reduced U.S. fair share towards those programs.

The Near East continues to be an area of key concern. In support of the President's peace initiatives in the Near East, continued support for Palestine refugees through the work of the United Nation Relief and Works Agency for Palestine refugees in the Near East is crucial. In our relief assistance request, we have included $72 million for this purpose. We also intend to continue to fund programs of the UNHCR, the ICRC, and some voluntary agencies for almost 2.8 million Afghan refugees in Pakistan. The sum of $31 million is included for this purpose.

Consistent with the concerns of the Administration in Latin America and the growing refugee needs in that area, we are increasing our request for funding of programs for Latin American refugees to $13 million, $8 million more than our FY 1983 request. Most of this amount would go towards UNHCR programs, although some will probably be contributed to the ICRC and voluntary agencies.

Finally, under relief assistance, we have requested $7 million for resettlement assistance programs. In accordance with the U.S. policy of encouraging solutions to refugee problems which minimize the need to resettle refugees in the United States, we intend to pursue the development of other resettlement options, including voluntary repatriation, resettlement in countries of first asylum, and resettlement in non-traditional resettlement countries.

Also included in our request is $22.4 million for "Other Activities". This item includes the U.S. contribution of $2 million to the so-called "ordinary program" of the International Committee of the Red Cross for their administrative expenses, as well as a $1.75 million contribution to their special program for visitation of political detainees. The Intergovernmental Committee for Migration is funded at about $3.15 million for their assessed administrative budget, and about $2 million for their voluntary programs -- the same level as for FY 1983.

Also in this category is the program of assistance to refugees settling in Israel at a level of $12.5 million, the same funding level requested for FY 1983. In accordance with the action of the Congress in the authorization act last year, this program now covers not only Soviet and Eastern Europe refugees immigrating to Israel, but also refugees from other areas.

Also included in this category is our normal $1 million contribution to the United Nations High Commissioner for Refugees for activities for which the United States does not earmark contributions.

Finally, we request $7.6 million for administrative expenses, an increase of only $38,000 from FY 1983. This assumes maintaining our current worldwide staff level of 98 positions.

REPAYMENT FOR PLO EVACUATION

Senator **Kasten**. Mr. Purcell, thank you.

As you know, this subcommittee has been interested in the repayment to the United States of the money that we advanced for the evacuation of the PLO from Lebanon. I worked with Mr. Dewey on trying to release part of that money, and I understand it still has not been completely resolved.

Could you tell us what the status is of the repayment to the United States for the money we advanced for the evacuation of the PLO from Lebanon?

Mr. **Purcell**. The evacuation, as you know, we regard as a significant foreign policy accomplishment in the sense that it relieved an irritant to the peace process in the Middle East. Because of the urgent need to assure that the evacuation was not held up, it was decided to use our money in hopes of pursuing the evacuation, and with the understanding that it would be reimbursed. We contributed about $4.6 million to that.

Senator **Kasten**. In the hopes that it would be reimbursed or with the understanding that it would be reimbursed?

Mr. **Purcell**. With the understanding that it would be reimbursed, with an agreement worked out that it would be reimbursed.

The ICRC has so far received $5 million from another government. The total cost of the evacuation is now some $8.7 million. We made a payment in early February to the British Board of Trade to settle final bills. Presently they and the ICRC are trying to wrap up the final figures, and we would then present a request for the remaining reimbursement, which we are optimistic will be forwarded as soon as the final bill can be tabulated and presented.

Senator KASTEN. Presented a request to whom?

Mr. PURCELL. This will be through the ICRC to the government that is providing the reimbursement.

Senator KASTEN. Which is?

Mr. PURCELL. The Government of Saudi Arabia.

Senator KASTEN. Do you have assurances that they understand that there was this agreement and that there is no longer a question as to whether or not they will accept the responsibility for the full payment of the evacuation?

Mr. PURCELL. There was an agreement early in the evacuation for reimbursement. At that time the cost was much less than finally materialized. We do not have a firm agreement, but it is our expectation that the final payment will be honored. We will have to make a request providing final cost figures and it is our hope that as soon as that can be forwarded that reimbursement will be made.

TIMETABLE FOR REIMBURSEMENT

Senator KASTEN. When do you think we will know what the final dollar number is, and then how long in terms of months or weeks, or however you want to express it, will the process take? We have to get the final number, we have to make the request and then the dollars have to be paid by Saudi Arabia. What do you imagine the timetable to be in those three steps?

Mr. PURCELL. It is my hope, and we are pressing both the ICRC and the British Board of Trade to finalize the figures, that a request can be made shortly in terms of repayments by the Government. We obviously do not control their payment process, but it is our hope, and our Ambassador is of the belief, that as soon as final figures are determined and we can present a final bill, that payment could be made shortly. But I could not guarantee in terms of weeks how long that would be.

Senator KASTEN. First of all, you said both of them would be occurring shortly. From the point of view of the final bill, does shortly mean within the next 2 months?

Mr. PURCELL. I would certainly hope that within the next 2 months. In fact it is our hope that we have just about gotten the final bill.

Senator KASTEN. So it might be within the next 2 weeks.

Mr. PURCELL. It could conceivably be. We had one additional claim which surfaced recently, and we are trying to work to resolve that. Assuming that no other claims emerge, then that final billing could be made shortly, and it could be soon.

Senator KASTEN. So it would be fair to say for the purposes of the subcommittee continuing to monitor this question that there ought to be a final bill within the next couple of months and that certainly by June or July the payments should have been made by the Saudis in fact back to us, and we could look at Memorial Day or the Fourth of July as the time that this whole issue should be resolved?

Mr. **Purcell**. It would certainly be our hope that we could make that schedule better than that, and we will certainly work in that timeframe. We are working in areas where we do not totally control the processes, but I can assure you that we shall make our very best effort to meet that time schedule or to do better.

Senator **Kasten**. I have two more questions, but I have got 3 or 4 minutes remaining on a vote. So I am just going to run upstairs and vote and come back down.

The committee will recess briefly.

[Brief recess.]

INDOCHINESE REFUGEES

Senator **Kasten**. I am sorry for the delay.

There have been recent reports in the media about shameful conditions confronting Indochinese refugees in this country, conditions which were supposed to be relieved by the work of voluntary agencies I understand from press reports and also from the Department of State's immigration and refugee assistance program.

At the same time, these reports indicated, at least for the voluntary agencies, some of these agencies and groups had significant amounts of money on deposit and earning interest. The money was, in other words, in a depository institution of some kind instead of being used for the purposes that they were intended.

Could you comment on these reports? Have you followed up in this regard, and is there any effort to get these funds back or at least efforts to have the interest from these funds paid back to the benefit of the United States? It seems that they might have been earning interest on dollars that, in fact, should have been at work, and they decided to keep the money squirreled away.

Mr. **Purcell**. Senator, since 1975 the private voluntary sector supported by the Government has financed the resettlement of over 630,000 Indochinese in this country. I think the voluntary agencies have done an enormous job. Clearly some of these refugees have had difficulty resettling.

We finance what I think is a significant private/public effort to enhance the job of voluntary agencies who have for years sponsored refugees as a private undertaking. During 1980 and 1981 we had the height of the Indochinese problem in this country. We paid the voluntary agencies $525 per capita for each refugee they resettled.

We also, as a matter of policy, emphasized to the voluntary agencies that this is a private effort and that church groups and others sponsoring refugees should provide as much in services as is feasible. We found that the private sector of this country was very forthcoming. Many of the agencies were able to accumulate, from the private groups, resources far in excess of those that were anticipated.

The funds that were provided to the voluntary agencies were accumulated, and we have made no secret of that. We have told the voluntary agencies that these funds should be used on behalf of refugees. In the past 2 years I have made no increases in the rate which we pay the voluntary agencies. We are still at $525 in the light and in the face of significant inflationary costs of housing, food, and all of those services that are provided.

We have worked out schedules with the voluntary agencies whereby these funds will be used on behalf of refugees this year. We think they will be worked off at the end of this year and the early part of next year. I have put a provision in our agreements with the voluntary agencies that any funds remaining in their accounts 12 months after their refugee resettlement for a given fiscal year will be returned to the Treasury.

We believe that this results primarily from the fact that the private sector has provided more in the way of housing, clothing, food, and material assistance to refugees than we originally expected. While these funds have accumulated, I think it is a reflection of the public good will in this country on behalf of refugees.

We have reconfirmed that these funds to be used only for resettlement and valid refugee needs. I believe that with the provisions we have made that these funds will be used only on behalf of refugees and any that are not used will be returned to the Treasury under the agreement that we now have in force with the voluntary agencies.

AUDIT OF REFUGEE PROGRAM

Senator KASTEN. Have you or has someone in your Department considered an audit to figure out exactly where these moneys are?

Mr. PURCELL. Yes, sir. We have had for years audits of this program through the Inspector General of the Department of State. We presently have audits of two agencies underway We are looking into their financing structure, their systems. We certainly have these reserves, in mind, and we have asked that special reviews be made of them.

Senator KASTEN. I wonder if at the time when the most recent audits are available if you could share that information with the subcommittee.

Mr. PURCELL. We would be delighted to.

Senator KASTEN. We would appreciate that.

UNITED NATIONS RELIEF AND WORKS AGENCY

In the continuing resolution for this year we limited funding for UNRWA to $50 million until we have received assurances that they have set up proper monitoring procedures so that there is not a recurrence of the incidents such as the case of one of the schools being used as a military training ground.

The subcommittee has not yet received the report which is required by the continuing resolution, although perhaps you don't intend to spend more than $50 million. But what is the status of, first of all, the situation in UNRWA and, second, the question of the report which would have been required by the continuing resolution?

Mr. PURCELL. When the continuing resolution was enacted, I sent a letter to Commissioner General Olaf Rydbeck requesting the assurances the committee sought. We received those in December. I felt they were inadequate and sent a followup letter to Commissioner Rydbeck. We received assurances for additional field monitoring of UNRWA personnel, of instructions to the field to acknowledge the conditions of our legislation and to report any abuses. We have set up a system for increased unannounced visits on behalf of the UNRWA field staff.

We believe the combination of these will prevent a future recurrence. We had, I felt, supplied earlier to the committee copies of the correspondence that I have had with Commissioner Rydbeck. My recollection is that I sent a letter to the subcommittee on December 17th acknowledging——

Senator **Kasten**. The continuing resolution did not come out until a couple of days after that date.

Mr. **Purcell**. We were aware of the subcommittee's interest, and we did not want to lose time. So we started right away. We will send a subsequent letter providing——

Senator **Kasten**. We all understand the problem and it has to do with field monitoring, it has to do with unannounced visits, it has to do with the kind of people that are doing the monitoring, and who they are working for. I think we all understand each other. It is just a matter of demonstrating to the Congress that these problems are being addressed at least as of this time.

Mr. **Purcell**. I shall send a letter to the subcommittee announcing the safeguards that we have put into effect.

Senator **Kasten**. Are we to assume then that you can work within the $50 million for this year or is it your intention to try to get an increase in funds and, if so, how much?

CONTRIBUTIONS TO UNRWA

Mr. **Purcell**. It will certainly be our intent to seek an increase above the $50 million. It is my belief that if we limited the contribution to UNRWA to $50 million that we could perhaps see the closing of schools or other methods that would bring the agency into question. At the pivotal time we are in, in terms of Middle East negotiations, we believe that UNRWA represents a stabilizing force.

We have not yet made a pledge to UNRWA for 1983. We are looking quite strenuously at UNRWA's financial needs. We are still trying to pin those down. We are trying to determine what other governments are likely to contribute to UNRWA. We have had an ongoing dialog for the past 2 months to try to pin that down. It will be our intention to try to keep UNRWA during this critical period of peace negotiations funded at a level somewhat around the current 1982 pledge.

I realize that from the committee that we will have to identify any funding that we provide in excess of $50 million. We are at this time prepared to do that because of the critical nature of UNRWA. But we have not pinned down a precise pledge for 1983 because we want to take into account what has happened. I think it is important to try, and the United States is certainly doing it, to get other governments to contribute more to the financing of UNRWA than they have in the past.

Senator **Kasten**. If we went up to $72 million for this year for UNRWA, what would that be as a percentage of the total contributions in UNRWA? In other words, you are exactly right, what we want to do is get OPEC countries and others to increase their percentages. Our rough numbers show that right now it is roughly 30 percent United States and only 7 or 8 percent coming from the entire group of OPEC countries.

So if we went, let's say, to $72 million this time, what kind of increases are you expecting from the OPEC countries?

Mr. PURCELL. Well, we have been trying to work with UNRWA to pin down what the current 1983 budget is, and I think we have had some success in trying to refine their estimates. The budget level that we are locking at for 1983 is something in the order of $206 million. Our objective will be to not exceed the amount presently contributed for 1982 and to do less than that if we feel that that can be done without jeopardizing the organization.

Back in the early seventies the United States was contributing upwards of 45 percent to UNRWA, and that has varied over the years, depending on their financial needs, but generally we have been in the range of 33 or 34 percent. It would certainly be our expectation to not exceed that on a percentage basis.

We are making efforts with the Japanese and the Arab countries to increase their share of the contribution. In 1981 the Arab countries contributed about $18 million. We certainly would like to see that increased, and we are making efforts, and I think UNRWA is as well to increase the contributions from other governments.

REFUGEE SITUATION IN CENTRAL AMERICA

Senator KASTEN. We have received a number of complaints that the United Nations High Commissioner for Refugees [UNHCR] has been less than helpful in refugee situations in Central America. Are you aware of those complaints and the continuing problems that evidently are occurring?

Mr. PURCELL. Yes, sir. We have frequent discussions with the UNHCR. In fact, this past week I was in Geneva and spent about 3 hours with the Latin American section there. We have been quite critical of their slowness to move in a number of instances in Honduras, particularly for 3,000 to 5,000 or so refugees around the Danli area in Honduras, and I think they have been extraordinarily slow. Many of these refugees, however, were working in farms around the region and that will soon be coming to an end. We have assurances that a camp will be selected. I have been assured that relief, which was started in December through the Red Cross, will be continued and that the provision of services to refugees in Central America will be provided on an equitable basis.

We are aware of those problems, and we have followed up quite aggressively with the UNHCR over the past 2 months.

Senator KASTEN. I had a meeting in Ambassador Kirkpatrick's office, with a group of people, some of them Miskito Indians. Of course, this is part of the group that is directly affected.

You should know that the Congress is aware of and very concerned about the seeming lack of attention. One more inspection team goes down, and then it is 6 months before you get a response, and they did not go to the right place or they weren't allowed in the right camp, and so we send someone else. It has just been delay and delay and just a bureaucratic mess. It is not helping you, and it is not helping them. I would hope that you would become a whole lot more stern about our strong concern in this area.

Mr. PURCELL. Yes. We were aware of this, and we have communicated not only the concern of the Congress but of our own Bureau and our own Department to UNHCR. I have assurances from the High Commissioner and the Deputy High Commissioner on down that these are going to be addressed in a serious way.

Senator KASTEN. We have had those assurances now for well over a year.

Mr. PURCELL. UNHCR has recently changed personnel in Honduras, and the most recent discussions with their person there are far more promising than we have had in the past.

SUBMITTED QUESTIONS

Senator KASTEN. I have some additional questions, Mr. Purcell, that we will submit for the record. But I very much appreciate your testimony here today, and I look forward to working with all of you. Thank you again for your patience.

Mr. PURCELL. Thank you, sir.

[The following questions were not asked at the hearing, but were submitted to the Department for response subsequent to the hearing:]

Questions Submitted by Senator Kasten

EXPELLEES FROM NIGERIA

Senator Kasten: It is my understanding that the United States has committed 790 tons of food supplies to the refugees from Nigeria. Can you tell the Subcommittee if those food supplies have been delivered, and what other aid the United States plans on providing?

Mr. Purcell: The Office of Foreign Disaster Assistance (OFDA) in the Agency for International Development (AID) reports that assistance has been provided to the people expelled from Nigeria to the following countries:

Ghana –	Disaster declaration by the Ambassador	$25,000
	60 MT of food through CRS	23,000
	Ghana total	$48,000
Togo –	Disaster declaration by the Ambassador (funds provided to the Togo Red Cross for gasoline, cooking fuel and food)	$25,000
	31 MT of food through CRS	12,600
	Togo total	$37,600
Benin –	Disaster declaration by the Ambassador (provided to the Beninese Red Cross)	$20,000
	870 MT of food through CRS and WFP	$228,000
	Benin total	$248,000
Niger –	Disaster declaration by the Ambassador (funds provided for fuel costs to help return Nigerians to their home towns)	$25,000
	Niger total	$25,000
The Gambia –	10 MT of food through CRS	$ 4,100
	The Gambia total	$ 4,100

Further information, as required, is available from OFDA.

RWANDA/UGANDA SITUATION

Senator Kasten: What are we doing to help alleviate the problems created by the flight of some 40,000 people from southwest Uganda who have crossed into Rwanda?

Mr. Purcell: To date the US has contributed $3,218,000, of which $1.5 million is in response to the UNHCR appeal for the period Oct. 1, 1982 to Feb. 15, 1983. The balance is the total costs (including ocean-freight and inland transportation) of 3,119 metric tons of PL Title II commodities. The Bureau for Refugee Programs is carefully monitoring the activities of UNHCR, Rwanda Red Cross and Catholic Relief Services (CRS) working in the refugee camps in Rwanda. The Office Director of the Africa section of the Bureau traveled to the area in

February for a first hand view of conditions and to see how the USG might be more responsive.

As a part of its response to the 1983 UNHCR program for Africa, the US will be contributing to the Rwanda situation which has now been folded into the UNHCR general program for Rwanda. State/RP and also AID are also considering a project in Rwanda for funding under the $30 million Special Appropriation for African Resettlement Services and Facilities.

REFUGEE CAMPS ON THE THAI-KAMPUCHEAN BORDER

Senator Kasten: Your total budget has gone down largely because of the decreased flow of refugees from Indochina. What is the population of the refugee camps along the Thailand-Kampuchean border, and what does it look like will be the eventual fate of those people?

Mr. Purcell: The current population of the refugee camps along the Thai-Kampuchean border is approximately 210,000.

It is impossible to tell exactly what will happen to these refugees because of the hostile activities of the Vietnamese occupying forces in Kampuchea. In late January, the Vietnamese overran and destroyed the Nong Chan Camp. The approximately 45,000 residents took temporary refugees in other border camps. The Vietnamese have also recently overrun the Phnom Chat camp (population 15,000) and apparently are preparing to move against Nong Samet (population 75,000) and Ban Sangae (population 22,000).

Our hope is that the Vietnamese will cease their indiscriminate attacks and that the displaced refugees will be able to return to their camps. Over the long term, we hope that the Vietnamese will agree to a political solution to the Kampuchean problem which will result in the withdrawal of all foreign troops and the re-emergence of Khmer self-determination. Under these circumstances, we expect that the border refugees would return to their homes in Kampuchea.

AFGHAN REFUGEES IN PAKISTAN

Senator Kasten: How does the total population of refugees and the rate of flow of refugees out of Afghanistan compare with last year?

Mr. Purcell: The estimated Afghan refugee population assisted by the UNHCR remains at approximately 2.2 million, about the same as last year. Refugees continue to flee Afghanistan at steady, but relatively low rates.

REFUGEE RESETTLEMENT IN ISRAEL
UNITED ISRAEL APPEAL GRANT

Senator Kasten: What has been the effect of opening the program which we fund for refugees from the Soviet Union and Eastern Europe to Israel?

Mr. Purcell: The effect of opening the UIA Grant to include "other" refugee groups is that the absorption costs of Ethiopian refugees (Falashas) into Israeli society are now being met in part by funds from the grant.

UIA officials report that during the first half of FY 1983 up to 50% of the funds is being used for the resettlement of some 2,000 Ethiopian refugees. This includes those who had already arrived in Israel prior to FY 1983, as well as the new arrivals. Programs for acculturation and training for Falashas require more time and are more costly then those for refugees from the Soviet Union and Eastern Europe.

REFUGEE BUREAU EMPLOYMENT LEVELS

Senator Kasten: Are you budgeting for any increase in staff in fiscal year 1984?

Mr. Purcell: No, we are meeting the increased requirements for training and resettlement programs, and for monitoring the effectiveness of U.S.-supported international refugee programs, by reallocating staff positions to these high priorities. We believe international refugee programs should continue to be carried out largely by private and international organization staff.

REFUGEE AND DISPLACED PERSONS IN CENTRAL AMERICA

Senator Kasten: Do you have an estimate of the number of displaced people within El Salvador and Guatemala?

Mr. Purcell: It is difficult to obtain an accurate estimate for displaced persons in El Salvador, since 35 to 45 percent of the population is engaged in migrant labor. The ICRC puts the figure at 200,000, while the Committee of National Assistance to Displaced Salvadorans (CONADES), an official organ of the Salvadoran government, estimates the number to be 500,000. The discrepancy between the figures may be the result of the inclusion of some migrant workers.

In Guatemala, the government estimates that there are approximately 50,000 displaced persons.

DISPLACED SALVADORANS AND GUATEMALANS IN OTHER COUNTRIES

Senator Kasten: Do you have an estimate of the number of displaced people from those two countries who are in other countries?

Mr. Purcell: We estimate that there are between 56,000 to 69,000 Salvadoran refugees in other Central American nations: 16-20,000 in Honduras; 12-13,000 in Costa Rica; 6-12,000 in Mexico; and 22-24,000 in Nicaragua.

We estimate that there are approximately 500 Guatemalan refugees in Costa Rica; 500-1,000 in Honduras; 25-30,000 in Mexico; and 50-150 in Nicaragua.

There is no accurate way for us to give a figure for the number of non-documented Salvadorans and Guatemalans who have left their countries but who are not registered as refugees in established refugee areas.

REFUGEE ASSISTANCE FUNDS FOR SALVADORNS AND GUATEMALANS

Senator Kasten: Can you estimate what part of the funds appropriated for refugees by the Congress is being used to assist these people?

Mr. Purcell: The Congress appropriated a total of $5 million for UNCHR refugee assistance in Latin America for FY 83. Most of the needs are in Central America, where the UNHCR program will probably require additional funding due to rapidly increasing needs.

PROGRAMS TO ENCOURAGE REFUGEES TO REMAIN WHERE THEY ARE

Senator Kasten: Are steps being taken to provide sufficient assistance for these people to encourage them to remain where they are rather than attempt to come to the United States?

Mr. Purcell: In Latin America there is a long tradition of granting political asylum. This tradition has withstood the test of modern refugee movements with financial assistance from the international community--the U.S. being the major donor.

Many of the refugees from El Salvador and Guatemala plan to return to their homeland when civil strife is reduced, so they prefer to remain as close as possible to their home areas. Consequently, movements have been primarily to refugee camps in Honduras, Costa Rica and Mexico.

The UNHCR, to which we are the largest donor ($8.2 million in FY 82 for Latin America), wants to emphasize self-help programs for refugees in Central America. Agricultural programs, marketing programs, educational and medical programs of a self-help nature are being developed, and rural sites have been selected in Honduras for agricultural programs. Refugees will be transferred from larger refugee camps to smaller ones so that they can more easily grow crops for their own use and for marketing.

ASSISTANCE OF NEIGHBORING COUNTRIES FOR SALVADORAN AND GUATEMALAN REFUGEES

Senator Kasten: What plans are being made to secure the assistance of neighboring countries in responding to the needs of these people?

Mr. Purcell: The Governments of Honduras, Costa Rica, Nicaragua and Mexico have all cooperated in assisting refugees coming into their countries from either El Salvador or Guatemala. The UNHCR has refugee programs operating in each of these four countries; these are extensive in Honduras and Costa Rica. Programs in Mexico and Nicaragua need further development, and priority attention is being given to them. These governments all honor the longstanding Latin American tradition of granting asylum to refugees.

QUESTIONS SUBMITTED BY SENATOR HATFIELD

RECEPTION AND PLACEMENT CONTRACT RESPONSIBILITIES

Senator Hatfield: What, from the Department's perspective, would be the advantages and disadvantages of turning the reception and placement contract responsibilities over to the Office of Refugee Resettlement?

Mr. Purcell: The reception and placement grant program has important foreign policy, as well as domestic, ramifications. An effective resettlement program requires close cooperation between the Department of State and the domestic community which is needed in refugee crises. To that end, the Department of State, through the Bureau for Refugee Programs, provides the necessary coordination between the international and domestic aspects of refugee resettlement to ensure an even, consistent flow of refugees and to assure that the process of moving refugees from temporary asylum countries to appropriate resettlement destinations in the United States is accomplished expeditiously in a fashion which meets our humanitarian and foreign policy goals.

Continuing the administration of reception and placement grants through a non-welfare-related department of the USG supports our goal that refugees should become self-sufficient as rapidly as possible, and that the long-standing involvement of the private sector in U.S. resettlement should be continued. We believe that now, when the program is being "managed down," any further disruption in a program already criticized for frequent change would be counter-productive.

Senator Hatfield: Wouldn't this be a way of dealing with the problems that are created at a national level from continuation of what people refer to as the current "two-track" system of resettlement (that is, separate, but interrelated roles of the Department of State and Health and Human Services)?

Mr. Purcell: The involvement of both government agencies in resettlement requires coordination which we believe has been carried out effectively. The benefits of the continuity provided by the Department of State is involvement from the overseas processing to initial U.S. resettlement far outweigh any "costs" of such coordination.

Senator Hatfield: If reception and placement grants were turned over to HHS, what suggestions do you have to insure cooperation and continuous work flow between overseas processing and domestic resettlement?

Mr. Purcell: There are no plans at present to turn over to HHS the reception and placement grant program. Should such a transfer be undertaken, a thorough analysis of all systems within the "overseas to domestic pipeline" would be needed to maintain the smooth flow of refugees from asylum countries to their final destinations in the U.S. An office would still be needed within the Department of State to serve as liaison between the two spheres of operation.

RECEPTION AND PLACEMENT GRANTS

Senator Hatfield: How do you account for what appear to be contradictions where voluntary agencies request increases in their reception and placement grants, when a national study last year found that significant sums of R & P funds were accumulating in bank accounts of the National Voluntary Agencies?

Mr. Purcell: While it is true that a few agencies still have some unexpended funds which were accumulated during the years of high admissions, it is now clear that almost every agency is currently spending in excess of its R & P per capita income. Recent discussions with the five agencies having the largest balances of unexpended funds indicated that each agency was drawing heavily upon its reserves. Expenditures for the first quarter of FY-1983 averaged more than $1,000,000 a month from the agencies' unexpended funds.

A projection of this expenditure rate clearly indicated that the agencies would have little more than a few months operating expenses at best remaining at the end of this fiscal year (September 1983). It is in light of this heavy reliance on these reserves and their near future exhaustion that the agencies are now requesting, an increase in the per capita amount.

It is also important to note that while some of the agencies have accumulated balances to augment their reception and placement services, several agencies do not have such funds and have for some time been spending in excess of their R & P income.

AMERICAN PUBLIC'S INVOLVEMENT IN REFUGEE RESETTLEMENT

Senator Hatfield: There are comments that American congregations and sponsors are decreasingly involved in the resettlement of refugees. Should contracts be changed to require more commitments and more involvement by Americans in resettlement even though some voluntary agencies would have to change their methods of resettlement or discontinue involvement in the program?

Mr. Purcell: The Department views the involvement of the American public in refugee resettlement as highly important to the success of the program. Our on-site monitoring visits across the country have revealed that, although traditional "sponsorships" (a congregation or American family taking over full responsibility for a refugee's resettlement) may be fewer in number, volunteerism in support of refugees within the domestic community continues in significant albeit often unsung ways. The Department works with voluntary agencies to 1) improve their management of core service delivery to refugees; and 2) develop additional in-kind or service donations from the private sector. Participation in the Reception and Placement grant program is now determined through a proposal submission process, one criterion of which is the agency's ability to tap the private sector for assistance in refugee resettlement.

VOLUNTARY AGENCIES' PRESENCE AND THEIR AVAILABILITY TO REFUGEES

Senator Hatfield: Should the structure of voluntary agency funding be changed to give voluntary agencies a core budget and a per capita payment for arrivals in order to change the orientation of our system, which appears to create incentives for voluntary agencies to bring refugees into the country with no incentive for ongoing work to assure they successful acculturation?

Mr. Purcell: The Department of State believes that the voluntary agencies presence and their availability to refugees beyond the 90-day period of the cooperative agreement are highly desirable. Given budgetary restraints, however, we do not believe that resources are currently available to fund this type of arrangement across the board although most volags attempt to assist refugees through counseling after the 90 days have expired. We have in recent months indicated our willingness to entertain suggestions for a modified Volag funding mechanism and would welcome any such proposals.

QUESTIONS SUBMITTED BY SENATOR INOUYE

LOWER REFUGEE ADMISSIONS IN FY-84

Senator Inouye: You note that refugee admissions in fiscal year 1984 are expected to be one-third of the fiscal year 1981 level. Among which group of refugees has the largest decrease occurred?

Mr. Purcell: Our proposed funding for fiscal year 1984 will permit the admission of up to 72,000 refugees from all areas of the world. This, in fact, will be some 45 percent less than the total number of refugees admitted to the United States in fiscal year 1981 when 159,252 refugees entered the United States.

In total numbers and percentages, the largest decrease will occur in the admission of Indochinese refugees. In fiscal year 1984, we expect to admit only about one-third of the number admitted in fiscal year 1981. In that year, some 131,139 Indochinese refugees entered the United States. We are seeking an admissions ceiling of only 46,000 for Indochinese refugees in fiscal year 1984. We are making concerted efforts to reduce the intake of Indochinese refugees while still upholding the principle of first asylum in Southeast Asian countries. Where possible, voluntary repatriation remains the first option. Resettlement in place, while desirable, is less viable in that part of the world. Therefore, international burden-sharing in the resettlement of Indochinese refugees remains of great importance. With a continuing decline in the arrival of Indochinese refugees in countries of first asylum in Southeast Asia, with some possibility of voluntary repatriation for certain groups, and with sizeable numbers of Indochinese refugees being accepted for resettlement in other third countries, we believe the acceptance of up to 46,000 Indochinese refugees by the United States will result in a very manageable Indochinese refugee program by fiscal year 1985.

SOVIET AND EASTERN EUROPEAN REFUGEE ADMISSIONS

Senator Inouye: You project refugee admissions of 15,000 from the Soviet Union and Eastern Europe in fiscal year 1984. How does this compare to admissions from that area in fiscal year 1981 and fiscal year 1982?

Mr. Purcell: In fiscal year 1981, some 20,148 Soviet Union and Eastern European refugees entered the United States. In fiscal year 1982, a total of 13,536 Soviet Union and Eastern European refugees were admitted to the United States. We currently estimate that as many as 15,000 Soviet Union and Eastern European refugees will be admitted to the United States in fiscal year 1983.

And that this figure may be as high as 16,000 to 17,000 if we are able to reallocate additional numbers from another geographic area.

Overall there is no great variation in the numbers of arriving Soviet Union and Eastern European refugees; within this group, there has been considerable fluctuation with far less Soviet Union refugees arriving and an increase in Eastern European refugees, particularly Poles, as a result of the imposition of martial law in 1982.

Senator Inouye: How many of these refugees are from Poland?

Mr. Purcell: Approximately 3,500 of the Eastern European refugees admitted in fiscal year 1981 were Poles; 6,647 Poles were admitted to the United States in fiscal year 1982; we estimate that roughly 6,000 Poles will be admitted to the United States as refugees in fiscal year 1983.

Senator Inouye: How many from the USSR?

Mr. Purcell: In fiscal year 1981, 13,444 Soviet Union refugees, primarily Soviet Jews and Armenians, were admitted to the United States; only 2,756 Soviet Union refugees were admitted in fiscal year 1982, and our current estimates for fiscal year 1983 call for up to 4,000 admissions from the Soviet Union. You understand, of course, it is extremely difficult to predict admissions from the USSR since this is almost completely under the control of Soviet emigration policies — policies which have become increasingly restrictive.

TRANSPORTATION LOANS

Senator Inouye: What do you mean by the term "capitalization of transportation loans"?

Mr. Purcell: The Intergovernmental Committee for Migration (ICM) provides tranportation services for almost all refugees coming to the United States. Since most refugees do not have the resources to finance the costs of their airfare, the United States provides capital to a Loan Fund maintained by ICM for the financing of airfare and related services performed by ICM. Refugees, however, are required to sign a promissory note for a set amount and to repay the cost of their transportation. The loans are collected by the voluntary resettlement agencies sponsoring the refugee. Most refugees are not able to begin repayment until they have found employment and have become self-sufficient. The percentage of repayments versus capitalization of funds was fairly low during recent years of relatively high refugee admissions, but have begun to increase substantially as the refugees who entered in 1980 and 1981 begin to repay the loans.

RECEPTION AND PLACEMENT GRANTS

Senator Inouye: Recent news reports have suggested that several voluntary agencies providing reception and placement services have built up bank accounts with grants from the U.S. Government. I would appreciate your clarification of this.

Mr. Purcell: The voluntary agencies have made extraordinary humanitarian contributions during the years of assisting Indochinese and other refugees. Over 600,000 refugees from Indochina alone have been assisted during the past eight years. Agencies receive a single payment ($525 for most refugees) from the USG for resettlement services. This grant supplements the agencies' own resources, which vary from agency to agency, to help get the refugees started in their new communities.

Some agencies temporarily accumulated funds during the period of large-scale refugee arrivals in 1979-81, a time when the agencies were also able to generate a large amount of private support for assisting refugees. The temporary accumulations of funds are being utilized for on-going programs for refugees with the concurrence of the State Department.

SOUTHEAST ASIAN RELIEF ASSISTANCE

Senator Inouye: Mr. Purcell, you are requesting $21.7 million for relief assistance to refugees in Southeast Asia. These number about 250,000 Kampuchean refugees on the Thai border and an additional 220,000 in UNHCR camps. What percentage of total assistance to these refugees does this $21.7 million represent? Would any other country qualify as a major donor of refugee assistance in Southeast Asia?

Mr. Purcell: The number of Khmer refugees on the border is now estimated at approximately 210,000. The United States contribution to refugee assistance in Southeast Asia equals about 30 percent of total requirements. The Japanese are also major contributors -- their 1982 contribution to the Khmer relief program exceeded our own contribution. The European Economic Community, the Australians, the Canadians, the Germans, the French, and the United Kingdom also contribute significant support.

PLO USE OF SIBLIN TRAINING CENTER

Senator Inouye: Last June, Israeli forces in Lebanon uncovered a cache of PLO weapons and explosives at UNRWA'S Siblin training center. What actions has UNRWA taken to ensure that such incidents are not repeated?

Mr. Purcell: To ensure against the future abuse of UNRWA facilities, Commissioner-General Rydbeck has instituted a number of measures which include:

-- increasing the number of international field staff;

-- instructing HQ and international field staff to make frequent, unannounced visits at irregular intervals to UNRWA installations, and;

-- reaffirming Agency guidelines concerning adherence to UNRWA's regulations as an international organization and to the use of UNRWA facilities.

A more detailed description of the actions taken by the Commissioner-General are attached to our March 25 letter to you on UNRWA.

Senator Inouye: Have disciplinary actions been taken against UNRWA officials?

Mr. Purcell: Yes. Disciplinary measures have been taken against UNRWA staff responsible for the abuses at the training center, including dismissal of the school's principal.

Senator Inouye: Have U.S. officials accompanied UNRWA officials on unannounced visits to UNRWA installations?

Mr. Purcell: Not yet, specifically. Deputy Assistant Secretary for Refugee Programs, Arthur E. Dewey and a member of his staff, however, did visit various sites of UNRWA operations in Jordan, Syria, the West Bank, the Gaza Strip, and Lebanon, especially including the Siblin training center, in January of this year. Mr. Dewey and his staff member in effect performed their own inspections along with senior UNRWA officials, and were given complete freedom to chose those sites they wished to visit and to inspect within those sites as they liked. We plan other trips to the area periodically in the future and will make it a point to accompany UNRWA officials on their unannounced visits to UNRWA installations.

OFFICE OF COMBATING TERRORISM

STATEMENT OF AMBASSADOR ROBERT SAYRE, DIRECTOR, OFFICE OF COMBATING TERRORISM, DEPARTMENT OF STATE

TRAINING PROGRAMS FOR COMBATING TERRORISM

Senator **KASTEN**. Once more let me apologize for the delays this morning, but we had an unusual set of circumstances.

The next witness is Ambassador Robert Sayre, the Director of the Office for Combating Terrorism.

Mr. Ambassador.

Ambassador **SAYRE**. Mr. Chairman, I will go through the prepared statement and simply underline the key points for you.

Senator **KASTEN**. I am going to have to also remind you that the people in the back have a difficult time hearing.

Ambassador **SAYRE**. We are requesting authority to begin a program of antiterrorism training and assistance for friendly foreign governments. To undertake this program we have requested an appropriation of $5 million for fiscal year 1984 and five new positions for the Department of State.

Under this proposal we would offer grants and sell training assistance to civil and police authorities of foreign governments to enable them to respond more effectively to terrorist acts.

PROGRAM AIMS

This program will:

Provide training courses in antiterrorism skills for friendly, developing countries subject to terrorist attacks;

Provide limited amounts of appropriate antiterrorist equipment to complement specific training programs;

Arrange training on a reimbursable basis and information exchange at U.S. facilities for officials of friendly, developed countries to enhance the sharing of antiterrorism expertise as part of the President's overall program to combat international terrorism.

The objectives of this program are:

To enhance the law enforcement antiterrorism skills of friendly countries;

To strengthen our bilaterial ties with friendly governments by offering concrete assistance in this area of great mutual concern;

To enhance cooperation in antiterrorism with the developed countries between their officials involved in combating terrorism and those in the U.S. Government;

To increase respect for human rights by foreign civil authorities by exposing them to modern and humane methods of effective preventive antiterrorism techniques;

To enhance the ability of foreign governments to protect U.S. overseas missions from terrorist attacks;

To contribute to the safety of Americans traveling overseas by lessening the likelihood that they would be caught up in an act of international terrorism such as an aircraft hijacking.

We are ourselves taking some measures to deal with this problem unilaterally. For example, we have increased very substantially the security of the U.S. diplomatic missions abroad.

INTERNATIONAL COOPERATION

International cooperation is also essential to an effective effort to combat terrorism. No one nation can do it alone. Our proposal to provide antiterrorism training and assistance is this sort of active cooperation. When terrorist incidents occur overseas, we look to the local government to discharge its responsibilities under international law to protect all persons within its boundaries.

Many countries are relatively ill-equipped to deal with terrorism. To meet this need we have proposed this antiterrorism training program. A key element of it is the training which would be provided to key civil officials of interested governments. They would include senior police, civil aviation, immigration, and other officials responsible for urban and national civil administration and military officers if they are in such positions.

We intend to provide this training at existing Federal institutions in the United States using the expertise of several domestic agencies. We plan to provide some equipment to complement specific training. For instance, passenger screening equipment for airports might be provided in connection with an airport security course, explosive ordnance disposal equipment in connection with a bomb disposal program.

ANTITERRORISM ASSISTANCE TO FOREIGN COUNTRIES

We would take into account the following factors before providing any antiterrorism assistance to a country:

First, does it face a terrorist threat, actual or potential?

Second, is it committed to participate in combating terrorism?

Third, does it wish to cooperate bilaterally with the United States against terrorism?

Fourth, is its human rights record compatible with U.S legislative criteria for the receipt of such U.S. Government assistance?

On the countries, we intend to consult with the Congress on proposed participants prior to the implementation of the program.

The program would be administered by the Department of State in a manner similar to training activities conducted in connection with the international narcotics control program.

This administration is convinced that present day political terrorism poses a threat to us, to our friends, and to organized international society. We believe that an international effort is necessary to deal with this specific danger.

Thank you.

[The prepared statement follows:]

PREPARED STATEMENT OF AMBASSADOR ROBERT M. SAYRE
DIRECTOR
OFFICE FOR COMBATTING TERRORISM

Anti-Terrorism Training

Mr. Chairman and Members of the Committee:

I appreciate this opportunity to testify in behalf of one important element of the President's program to combat and deter international terrorism. Specifically, we are requesting authorization to begin a program of anti-terrorism training and assistance for friendly foreign governments. To undertake this program, we have requested 5 new positions for the Department of State and an appropriation of $5 million for fiscal year 1984.

We first presented this program for congressional consideration last year. Hearings were held by the appropriate Committees and a number of thoughtful and useful suggestions and amendments were proposed. The legislation we are proposing this year is a combination of our original proposal plus virtually all of the Congressional amendments. These changes provide for more specific Congressional oversight and a tighter adhesion to the program's anti-terrorism theme.

Under this proposal, we would offer grant and sell training assistance to civil and police authorities of foreign governments to enable them to respond more effectively to terrorists acts. Training and equipment would be offered in areas sucn as anti-terrorist precautions, incident management, hostage and barricade negotiations, airport anti-hijacking security measures, bomb disposal, and dignitary and facility protection.

The program will:

-- Provide training courses in anti-terrorism skills for friendly, developing countries subject to a terrorist threat;

-- Provide limited amounts of appropriate anti-terrorist equipment to complement specific training programs;

-- Arrange training and information exchange on a reimburseable basis at US facilities for officials of friendly, developed countries to enhance the sharing of anti-terrorism expertise as part of the President's over-all program to combat international terrorism.

The objectives of this program are to:

-- Enhance the law enforcement anti-terrorism skills of friendly countries;

-- Strengthen our bilateral ties with friendly governments by offering concrete assistance in this area of great mutual concern;

-- Enhance cooperation in anti-terrorism with the developed countries between their officials involved in combatting terrorism and those in the USG;

-- Increase respect for human rights by foreign civil authorities by exposing them to modern and humane methods of effective preventive anti-terrorism techniques;

-- Enhance the ability of foreign governments to protect US overseas missions from terrorist attacks;

-- Contribute to the safety of Americans traveling overseas by lessening the likelihood that they will be caught up in an act of international terrorism such as aircraft hijacking.

Before I describe our proposal in more detail, let me outline the key considerations which have led the President to propose this important new initiative. There is a growing terrorist threat in the world today, which is graphically demonstrated by the following statistics:

-- The number of international terrorist acts -- violent crimes such as assassination, skyjacking, hostage taking, and bombings -- has increased from 142 in 1968 to 746 in 1982.

-- Attacks against diplomats have increased from 80 in 1968 to 409 in 1981.

-- The United States has continued to be the principal target of international terrorist attacks; about 1/3 have been against American targets. Five American Ambassadors have been murdered in terrorist attacks, more than the number of US Generals killed in action in Viet Nam. The murder of Colonel Ray in Paris and the kidnapping of General Dozier are only two of the most publicized attacks against Americans.

-- Nor has American business abroad been spared. Between 1968 and 1980 there were 901 attacks against American business executives or facilities.

-- Other innocents have suffered both as targets, such as the infamous slaughter at Lod Airport in Israel, or as bystanders, as in the bombing of the Bologna train station in 1980.

-- Terrorist incidents were recorded in 93 countries in 1982.

The statistics I have quoted relate to international terrorist acts, -- that is, they do not include terrorist attacks which have occurred inside various countries against domestic victims. We have also continued to experience terrorist crimes in the US committed by American terrorists, as well as attacks here by terrorists from other countries, usually directed against non-American targets such as Turkish or Yugoslav diplomats resident here.

Today I would like to emphasize two aspects of the terrorist threat: its political significance and its international character.

The numbers of individuals who have been personally touched by terrorist acts -- those who have been killed, wounded, or kidnapped, and their relatives and friends -- represent a human tragedy. At the same time they represent a political challenge. In a sense most of these individuals were symbols, not targets. The purpose of their suffering, from the point of view of the terrorist perpetrators, was often to influence someone else. The long-term challenge of terrorism is the effect it has on responsible governments and government officials. As V.I. Lenin once said, "the aim of terrorism is to terrify." The terrorist objective is to obtain or exercise political power by threatening and frightening, ultimately to intimidate, those whom cannot be influenced in more pacific political ways.

The terrorist rejects the validity of the peaceful political process. He elevates violence to doctrine. He deliberately confuses means and ends and thereby threatens the framework of modern political society.

As serious a threat as this is to well established democratic governments such as ours, it is potentially fatal to developing countries and governments, many of whom are still in the process of creating permanent institutions and stable democratic structures. The terrorist understands the fragility of such governments, and is well aware of the potential destructiveness of his actions. Terrorists set out to destroy existing structures and to frustrate efforts to build new ones.

The problem of terrorism has several international aspects. First, there are undeniable links between many terrorist groups. We know that among various terrorist groups there are exchanges of information, expertise, training, money, weapons, ideology, and general support.

Second, there are undeniable links between various terrorist organizations and governments. Libya, Syria, the People's Democratic Republic of Yemen, and Cuba have been identified as repeated supporters of acts of international terrorism.

Third, terrorists, like criminals, cross borders, which makes it virtually impossible for a single government to deal effectively with the terrorist threat.

Finally, terrorists have increasingly begun to attack target governments outside of their territories; for example by attacking diplomats resident in a third country. This particular tactic is of special international concern because it poses a threat to the entire international diplomatic establishment.

These connections, relationships, international movements and tactics significantly complicate the efforts of individual governments to deal with terrorist acts within their borders, and the efforts of governments to act collectively as members of the world community.

President Reagan is deeply concerned about the terrorist threat and is determined to do something about it. United States policy in this area is multi-fold. We are taking unilateral policy steps against nations which support or abet terrorism. Libya is a current example. We are also increasing the security of US diplomatic missions.

However, international cooperation is also essential to an effective effort to combat terrorism. No one nation can do it alone simply because of the very nature of contemporary terrorism. Cooperation can take many forms, including the exchange of information, tighter controls on the movement of weapons and explosives, more effective extradition procedures, and discouraging support for terrorist groups. States with diverse forms of government, in all parts of the world should share a common interest in eliminating terrorism by taking concrete steps to attain common goals.

However, we also believe that more active cooperation is required. Our proposal to provide anti-terrorism training and assistance is this sort of active cooperation. When terrorist incidents occur overseas, we look to the local government to discharge its responsibilities under international law to protect all persons within its boundaries. This includes protection from acts of terrorism. It is with these thoughts in mind that we have developed the program we are presenting today. It is designed to further international effectiveness in combatting terrorism by assisting countries in fulfilling their share of that international obligation and in pursuing our common objectives.

Many countries are relatively ill-equipped to deal with this problem. Key civil officials, primarily those officials responsible for the maintenance of law and order, could benefit from our experience in dealing with this problem.

To meet this need, we have proposed this anti-terrorism program. A key element of it is the training which would be provided to key civil officials of interested governments. They would include senior police, civil aviation, immigration and other officials responsible for urban and national civil administration. We plan to concentrate, at least at the beginning of the program, on training of officials who are responsible for crisis management in participating governments.

Based on the participating government's evaluation of its own specific needs we would provide more specific training for middle manager level officials. For instance, we could offer to train the actual hostage negotiator, the officer directly responsible for airport security, or the official who would be the on-site police commander for an incident such as the seizure of an Embassy.

We intend to provide this training at existing Federal institutions in the United States, using the expertise of several domestic agencies. Primary facilities to be used are the FBI Academy at Quantico, Virginia, the Federal Law Enforcement Training Center at Glynco, Georgia, and the Transportation Safety Institute at Oklahoma City, Oklahoma. All of the training programs we plan to make available to foreign participants already exist and are being given to Federal, State and local officials and, in some cases, to foreign officials (notably the aviation security courses). Under this program we would not provide training programs overseas, nor would we assign advisors permanently overseas.

In addition to providing training, we hope to provide some equipment to complement specific training. For instance, passenger screening equipment for airports might be offered in connection with an airport security course, and explosive ordnance disposal equipment might be provided in connection with a bomb disposal program. However, we envisage only a modest program of equipment transfer.

While training and equipment would be provided on a grant basis primarily to countries which need to improve their capabilities, we will sell these services and materials to our friends and allies among the developed nations. We hope to coordinate our efforts with them to assist third world countries and to expand the sharing of information on terrorism.

The training and advisory services provided by other USG agencies would be on a reimbursable basis for the additional costs that agencies incur, in the same fashion as we now reimburse DOD for training provided for the IMST program.

A key question in the administration of this program obviously concerns the selection of participating countries. We would take take into account the following factors before providing anti-terrorism assistance to a country:

1. Does it face a terrorist threat, actual or potential?
2. Is it committed to participate in combatting terrorism?
3. Does it wish to cooperate bilaterally with the US against terrorism? and,
4. What is its human rights record compatible with US legislative criteria for the receipt of USG assistance?

Although we have done a certain amount of planning and preparation for the implementation of this program, we have -- in the absence of Congressional authorization -- abstained from drawing up a list of potential participating countries. Once Congress favorably acts upon our request, we would use the criteria I have listed to prepare such a list.

We intend to consult with the Congress on proposed participants prior to implementation of the program. In succeeding years, we would expect to provide Congress with an annual report of participating countries, plus a list of proposed participants for the following year. I would like to emphasize that this program will be completely open and unclassified.

This program will be administered by the Department of State, in a manner similar to training activities conducted in connection with the International Narcotics Control Program. We intend to obtain additional staff for the State Department's Office for Combatting Terrorism, which will manage the Department's responsibilities. As I stated earlier, actual training will be provided, on a reimbursable basis, by other USG agencies which are expert in the required fields of instruction. Contact with potential participating countries will be through normal diplomatic channels.

We are requesting authorization and appropriation of $5 million and 5 positions in FY-1984, $4.6 million for the training and some equipment transfers and $400,000 for related management and administrative costs. We believe this is adequate for the first full year of operations. We are also asking for authorization to transfer up to $2.5 million of funds available for other provisions of the Foreign Assistance Act of 1961, as amended and the Arms Export Control Act to enable us to begin this program in the current fiscal year.

Although the bill would authorize this program, notwithstanding the provisions of 660 of the Foreign Assistance Act relating to prohibitions on police training, we have formulated this program with due consideration to the concerns which led to the enactment of Section 660. This present proposal has been purposefully designed to deal with the specific problem of combatting international terrorism. We will not be training policemen as policemen. We will be attempting to assist threatened governments to make a more significant contribution to a world-wide effort in cooperation with us and other like-minded governments.

This Administration is convinced that present day political terrorism poses a serious threat to us, to our friends, and to organized international society. We believe that an international effort is necessary to deal with that specific danger.

Thank you.

CONGRESSIONAL ACTION ON PROGRAM

Senator **Kasten**. Mr. Ambassador, thank you.

I also appreciate the fact that you evidently had to change your own schedule in order to be here today. The reason we thought it was important to have you here and to get this information on the record is that, as you probably are aware, this committee and the Senate basically approved the appropriation of $5 million for your efforts last year.

Unfortunately, in the conference with the House of Representatives, we were unable to have them agree to our position, in part, because they said they had insufficient information to recommend the appropriation for the program. Furthermore, there was concern that the program would be used to provide more military-type training, or to provide military equipment or weapons to military forces. There was a real misunderstanding.

If we can concentrate on airport surveillance devices rather than military, we will start to go in the right direction, I believe.

CONTROLS ON THE ANTITERRORISM PROGRAM

Have you been able to work with the other body in explaining the kinds of controls that this program will have to insure them particularly that it is simply not to be used to beef up military or paramilitary forces?

Ambassador **Sayre**. Well, there is no intention under this program to become involved in military assistance. There never has been any intention in this program to become involved in that.

But you are right, Mr. Chairman, we have had the full cooperation of your committee. The Congress did, at the last session, when they heard of this program, propose certain changes to clarify certain matters, and the legislation before you accepts almost every one of those proposed changes. For example, with respect to the issue on military assistance, a proposal was put in to prohibit the transfer of defense articles on the munitions export list, and that change is perfectly acceptable to us. We had no intention of doing that anyway.

So, I think, that with the changes that have been suggested both on the House and on the Senate side, almost all of which we have incorporated, that should clarify the issue for anyone who had a question.

Senator **Kasten**. Are you and your staff working on cost consultation with the House of Representatives Appropriations Committee?

Ambassador **Sayre**. That is right, we are, sir.

Senator **Kasten**. If we provide funding for this program, which countries will receive the assistance?

Ambassador **Sayre**. Mr. Chairman, when we had the hearing last year you asked that question and we provided a letter to you. I have a copy of it here. We asked, because we have not consulted with any foreign governments at all on this subject awaiting the Congress authorization, that this matter be kept confidential, but we can provide this list.

Senator **Kasten**. Is the letter the same as last year's letter?

Ambassador **Sayre**. Yes; it is.

Senator **Kasten**. Fine.

Could you describe the level of interest being shown by likely recipient countries? Is this an issue of great concern and are people looking forward to working with us? What kind of a level of interest have you seen from potential recipients?

Ambassador SAYRE. We have had a considerable level of interest simply because we have had hearings and other countries know about the program. But we have not made any effort at all to persuade any country to participate or have we really discussed it with any foreign country until we get the authorization.

Even at a speech I made not so long ago here in the United States, one of the participants was from a foreign country. He came up afterward and said he had heard about the congressional hearings, and he wanted to know how his country could participate in the program. His country was in Africa. So there is considerable interest in the program, but until we get authorization and know what we have—the authority to do, we are not making any definite plans with any foreign countries.

COORDINATION WITH OTHER COUNTRIES

Senator KASTEN. In your statement you talked about international cooperation; will other countries be contributing to the program? It would seem to me that many of the countries that have been subjected to terrorism, that some of them would be in a position, not only to help pay for some of their own programs, but also to put themselves into a pool in working more worldwide.

Ambassador SAYRE. Other countries already have programs like this. The British have a program similar to this. The French do this kind of training. The Germans have provided assistance to other countries. So there are a number of countries already doing this. We have not sat down with these other countries and discussed what we can do in detail and find out what they can do and how we can complement each other. But we do know, as a matter of fact, that other governments are already doing this.

Senator KASTEN. Will countries who can afford it be given the opportunity to take advantage of this training being provided by your group? Will countries who can afford it be given the opportunity to participate in the training on a reimbursable basis?

Ambassador SAYRE. We intend to consider each country on a case-by-case basis and to get the maximum reimbursement that we can.

SUBMITTED QUESTIONS

Senator KASTEN. Mr. Ambassador, I very much appreciate your testimony. There may be questions from other members of the subcommittee. We will get those questions to you in writing and hopefully you can get back to us with some answers, and hopefully we can get more successful this year than we were last year in getting this program off the ground.

[The following questions were not asked at the hearing, but were submitted to the Department for response subsequent to the hearing:]

QUESTIONS SUBMITTED BY SENATOR KASTEN

ANTI-TERRORISM ASSISTANCE PROGRAM

Senator Kasten: Can you give us a report overall on the level of terrorism activity during the last year, and also the worst offenders as far as countries are concerned?

Ambassador Sayre: In 1982, the United States Government recorded 774 international terrorist incidents. This was 46 more than recorded in 1981. Injuries or death occurred in 124 of these attacks -- our records show that 128 people were killed and 743 wounded -- down slightly from 1981.

The categories of incidents in 1982 were similar to past years. Bombings (334) remained in the preferred type of operation. In addition, 24 kidnappings, 28 hijackings and 43 assassinations were recorded.

A total of 117 groups claimed credit for international terrorist incidents (including threats) in 1982. This is the second largest total since 1968 (128 groups claimed credit for events in 1980). Although these 117 groups represent 71 different nationalities, as in past years Palestinians, Armenians, West Germans, and Central Americans were responsible for the majority of the incidents.

Incidents during 1982 were recorded in 93 countries, continuing the trend toward a greater geographic spread of international terrorism. A significant percentage of incidents, however, occurred in only a few countries; 108 incidents were recorded in West Germany, 52 in Italy and 50 in France.

Citizens from 63 countries were victims of these attacks, down slightly from last year. As in past years, US citizens were a primary target. Other countries whose citizens were often victims include Turkey, Israel, France and West Germany. Attacks or threats against these five countries accounted for more than 68 percent of all the incidents.

Senator Kasten: You indicate in your statement that we are taking unilateral policy steps against nations which support or abet terrorism, and you give Libya as an example. It would not seem that this policy affects private commercial activities between private concerns in the United States and Libya. Shouldn't it?

Ambassador Sayre: Indeed the US Government can and is controlling private commercial activity between Libyan and US firms. In March, 1982, President Reagan, after consultations with Congress, announced a termination of all imports of Libyan crude oil into the US and the establishment of controls on all US exports to Libya, excluding only food and medical supplies. Under the control mechanism, all US exporters must obtain licenses from the Department of Commerce to export goods to Libya. Currently such licenses are not being issued for exports of military equipment, wide-bodied aircraft and parts, certain types of petroleum equipment and sophisticated computers which have dual civilian-military applications.

QUESTIONS SUBMITTED BY SENATOR INOUYE

Senator Inuoye: I would like to establish the need for this new program of anti-terrorism training and assistance. Can you tell the Committee how many incidents of terrorism have occurred in the past year? How does that compare with each of the previous four years?

In the past year, were any American citizens the victims of terrorism? Would you briefly tell the Committee of the circumstances surrounding these incidents?

Ambassador Sayre: Of a world-wide total of 774 international terrorist incidents, 378 involved American citizens or property -- more than in any other year since 1968 except 1978 when hundreds of attacks occurred in Iran. We recorded six kidnappings, seven assassination attacks and ten skyjackings involving Americans. Bombings of American property increased from 91 in 1981 to 160 in 1982, and threats against Americans rose from 29 to 75. Thirty of these incidents resulted in casualties. Five US citizens, including three in Paris, one in Turkey, and one in Guatemala were killed and ten were wounded. Damage to US property was recorded in 120 attacks.

While attacks against Americans occurred in 78 different countries in 1982, 45 percent occurred in Western Europe primarily in West Germany (77), Italy (37), and Greece (24). In all previous years most of the attacks against the United States occurred in Latin America, but only 26 percent occurred there this past year.

As in past years, US diplomats were the primary victims, accounting for 38 percent of the incidents. Attacks against businessmen increased and accounted for 27 percent of the attacks. There were also 71 attacks against US military personnel, representing 18 percentage of the total.

Senator Inouye: What do you mean by the term "appropriate anti-terrorist equipment"?

Of the $5 million requested appropriation, how much will be obligated for equipment?

Will any of the equipment which is provided under this program be lethal?

Ambassador Sayre: Appropriate anti-terrorist equipment would include airport security equipment (metal detectors, x-ray machines), bomb disposal equipment, and communications equipment for crisis management teams.

We are not yet in a position to provide precise estimates on how much of the $5 million will be used for provision of equipment but we expect it to run in the general area of ten percent.

No lethal equipment will be provided under this program.

Senator Inouye: You note the established linkages between many terrorist groups.

How will the program you are proposing disrupt or control these linkages?

Ambassador Sayre: Terrorism is both a national and an international problem. Our program will first of all assist countries in combatting terrorism within their own borders. However, another major objective of the program is to improve cooperation with our friends and allies on combatting terrorism. We believe that training foreign law enforcement officers at the FBI, Treasury and other training schools in the United States will help considerably in improving the linkages among law enforcement officers. The training program is intended to improve the techniques and capabilities of law enforcement officers for dealing with terrorism problems. We believe that improved international cooperation against terrorism and better techniques for dealing with the problem will not only disrupt terrorist organizations within countries but will enable the international community to effectively work against the established linkages between terrorist groups.

Senator Inouye: Will your program be associated with INTERPOL?

What anti-terrorist programs are currently being conducted under INTERPOL's auspices?

Ambassador Sayre: INTERPOL does not deal with international terrorism and, therefore, our program will not be associated with INTERPOL.

Senator Inouye: Have recent arrests of Red Brigade members in Italy brought about any reduction in the incidence of terrorism?

Ambassador Sayre: It appears that recent arrests of Red Brigade terrorists has brought about a significant reduction in the incidence of terrorism in Italy.

Senator Inouye: You have said that the United States is "taking unilateral policy steps against nations which support or abet terrorism. Libya is a current example."

What actions is the United States taking against Libya?

Are we increasing security of US diplomatic missions because of threats from Libya?

Ambassador Sayre: Prior to 1982, the US closed its Embassy in Libya and required the closing of the Libyan Embassy in Washington. In March, 1982, after consultations with Congress, President Reagan announced that the US would henceforth prohibit imports of Libyan crude oil into the United States and ban selected exports of US-origin items to Libya. The export regulations require US exporters to obtain licenses for all exports to Libya, except for food and medical supplies. Export licenses are not being approved for the sale of military equipment, wide-bodied aircraft, certain types of petroleum equipment and items such as sophisticated computers which have dual civilian-military applications.

Regarding the protection of US embassies, thanks to Congressional approval of funds, the State Department is undertaking major security improvements at 70 of our most threatened diplomatic missions and security enhancement measures at an additional 55 posts. These measures are being taken as a result of threats from many sources, not only Libya.

Senator Inouye: In your prepared remarks, I find the following statement: "States with diverse forms of Governments, in all parts of the world, should share a common interest in eliminating terrorism by taking concrete steps to attain common goals."

This strikes me as a laudable goal, but one which ignores the realities of contemporary international politics.

Would the United States regard an airplane hijacking by a citizen of Poland wishing to flee to the West as a terrorist incident?

I think the United States and Polish authorities might well have antithetical goals in this instance. Do you not agree?

Ambassador Sayre: The United States regards any terrorist act as criminal despite the political motivation involved. Aircraft hijacking is certainly a terrorist act regardless of who commits it.

In 1978, the US joined with the Governments of Canada, the United Kingdom, France, the Federal Republic of Germany, Italy and Japan to sign the Bonn Declaration. In essence the Declaration states that any nation which does not prosecute or extradite hijackers in its territory will face the termination of air service by the seven nations. It does not specify what sentence a hijacker must receive but it does require that he be tried under the laws of the apprehending nation or be extradited.

In fact, several cases have occurred of Polish citizens hijacking Polish civil airliners to the German Federal Republic. Authorities there have, in accordance with the Bonn Declaration, tried the hijackers who were subsequently convicted and given prison terms.

SUBCOMMITTEE RECESS

Ambassador **Sayre**. Mr. Chairman, I appreciate your help and cooperation, and we will respond as promptly as we can.

Thank you very much.

Senator **Kasten**. The hearing is adjourned.

[Whereupon, at 12:25 p.m., Tuesday, March 1, the subcommittee was recessed to reconvene at the call of the Chair.]

FOREIGN ASSISTANCE AND RELATED PROGRAMS APPROPRIATIONS FOR FISCAL YEAR 1984

WEDNESDAY, MARCH 2, 1983

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, D.C.

The subcommittee met at 2 p.m., in room S-126, the Capitol, Hon. Robert W. Kasten, Jr. (chairman), presiding.

Present. Senators Kasten and Specter.

PEACE CORPS

STATEMENT OF LORET MILLER RUPPE, DIRECTOR, PEACE CORPS

ACCOMPANIED BY:

- ED CURRAN, DEPUTY DIRECTOR, PEACE CORPS
- TOM WILSON, ACTING DIRECTOR OF BUDGET AND FINANCIAL MANAGEMENT

OPENING STATEMENT OF SENATOR KASTEN

Senator KASTEN. The subcommittee will come to order. This afternoon we will continue our fiscal year 1984 hearings with testimony in support of the budget requests for the Peace Corps and the Inter-American Foundation, two organizations that have enjoyed a great deal of support in Congress.

Last year we were successful in maintaining a level of funding for these organizations that allowed them to continue their success. That was difficult, with the budget constraints we were facing, but I am pleased we were able to end that process as successfully as we did.

We will try in fiscal year 1984 to strike a balance once more between budgetary constraints and the need and real value of these programs.

Ms. Ruppe, your statement will be inserted in the record in full. We would appreciate it if you could summarize your statement so that ample time will be left for questions. Once more, I appreciate having you here today, and I thank you for the work you have done.

BUDGET REQUEST

Ms. RUPPE. Thank you very much, Mr. Chairman. I would like to take this oppportunity to introduce my Deputy Director, Ed

Curran, and Tom Wilson, who is our Acting Director of Budget and Financial Management.

Mr. Chairman, members of the subcommittee, it is a pleasure to appear before you this morning in support of the administration's request that you appropriate $108,500,000 for the Peace Corps for fiscal year 1984.

PEACE CORPS EFFORTS IN 1982

You have stated that the full statement will go into the record, so I will just summarize a few items. I am glad to report that the Peace Corps' 5,000 volunteers serving in 62 countries have had a very productive year. Many of the projects they have been involved in over the past year are listed in my complete statement—agriculture, rural development, renewable energy, appropriate technology, construction of small dams, health, education, community health, village sanitation. These efforts have truly left an impressive record in the developing countries around the world.

I recently returned from Asia, where I visited Thailand, Malaysia and the Philippines, and in each country top governmental officials as well as local leaders were most appreciative and felt that the volunteers were truly helping their development efforts and were a positive line of communication with the United States.

In the Philippines we were awarded the highest award given by that country. The Golden Heart Award was presented to the Peace Corps and to the 6,000 Americans who have served in the Philippines as Peace Corps volunteers throughout the past 20 years.

FORWARD PLAN INITIATIVES

Since the Peace Corps was reestablished as an independent agency in February 1982 we have completed our reorganization. We have formulated several major initiatives addressing training, management, overseas programing, private sector development, increased public sector awareness of the Peace Corps, strengthening volunteer recruitment, expanding collaborative efforts with other Federal agencies and private voluntary organizations, and increasing volunteer assistance in the food and energy areas. This package of initiatives we call our "Forward Plan," and I am happy to report that some of the 3-year goals have been reached already, and the others are on track.

In our endeavors to promote economic development and self-sustained productive capacity, as envisioned in our forward plan, we have initiated and expanded special projects in all three regions and will add several inservice training programs.

FISCAL 1984 PROJECTS

New projects for fiscal year 1984 in all three regions will increasingly emphasize food production for consumption and income; promote management and marketing skills of rural farmers; and further energy and water system projects enabling poor rural communities to administer their own water and energy resources and to maintain them after our Peace Corps volunteers are gone.

We have initiated private sector and competitive enterprise development, which we feel will be extremely successful in improving marketing skills and in coordinating forestry and small-scale agriculture.

COLLABORATIVE EFFORTS WITH OTHER FEDERAL AGENCIES

One of our major aims this past year has been to increase collaborative efforts with other Federal agencies and private voluntary organizations. I am pleased to inform you that our ongoing collaboration with AID, and with its Administrator Peter McPherson, continues to be highly successful. We joined with AID in the small projects assistance program, where our country directors in each of the 41 countries where there is joint Peace Corps-AID presence will have funds available to support local low-cost self-help projects identified and assisted by Peace Corps volunteers.

This is modeled on the highly successful efforts that have been made with self-help funds and the accelerated impact that was used in the Pacific. We look forward to continuing our mutually beneficial relationships with these organizations.

We look ahead to expanded utilization of participating agency service agreement resources, particularly for providing inservice technical training. In the past year we have exercised considerably greater management control over the various support services provided to our program overseas. This year also saw the ongoing commitment to women in development through a sector being developed within our agency. We are proud to announce that that office is doing very well, especially in this year, which is the 10th anniversary of the Percy amendment.

INTERNATIONAL NEED FOR PEACE CORPS

Despite our excellent recognition overseas and the strong support of President Reagan for voluntarism, a lack of public awareness has existed in this country in recent years. We continue to speak out to inform the American people that the Peace Corps is alive and well and needed, now more than ever. New public service announcements focusing on the individual skills and talents of particular volunteers have been produced. We trust this will help us in our minority recruitment and in our outreach to experienced older Americans, or early retirees to encourage them to participate in service in the Peace Corps. We want to thank several Congressmen and Senators who have given us space in their newsletters and news columns and on their radio programs so that their constituents could be apprised of the Peace Corps.

This year I am happy to announce we reached a record level in January of inquiries for the Peace Corps, over 7,000 incoming requests for information, which is a higher number than it has been in the past 10 years.

In summary, I am very pleased to inform you what the Peace Corps plans in fiscal year 1984 are under the Reagan administration's request of $108,500,000. It has been an exciting, fulfilling year for all of us, and we deeply appreciate the support of this committee.

I would like to point out that many of the volunteers have mentioned to me personally their great appreciation for increasing the level of the readjustment allowance. We feel that it has been of great value to them. It has also encouraged many volunteers to continue with a third year of service, which is extremely valuable.

So, I thank you for the opportunity to appear before you, and I welcome any questions.

[The prepared statement of Ms. Ruppe follows:]

PREPARED STATEMENT OF LORET MILLER RUPPE
DIRECTOR
THE PEACE CORPS

MR. CHAIRMAN, MEMBERS OF THE SUBCOMMITTEE:

IT IS A PLEASURE TO APPEAR BEFORE YOU TODAY IN SUPPORT OF THE ADMINISTRATION'S REQUEST THAT YOU AUTHORIZE APPROPRIATIONS OF $108.5 MILLION DOLLARS ($108,500,000) FOR THE PEACE CORPS FOR FISCAL YEAR 1984, AND SUCH SUMS AS MAY BE NECESSARY FOR PEACE CORPS OPERATIONS IN FISCAL YEAR 1985.

SINCE I TESTIFIED BEFORE YOU LAST YEAR, THE PEACE CORPS' 5000 VOLUNTEERS SERVING IN 62 COUNTRIES HAVE HAD A VERY PRODUCTIVE YEAR.

FOR EXAMPLE:

— 1,500 VOLUNTEERS PROVIDED TECHNICAL ASSISTANCE IN A VARIETY OF AGRICULTURAL AND RURAL DEVELOPMENT PROJECTS, HELPING SMALL FARMERS LEARN TO MANAGE THEIR CROPS AND RAISE LIVESTOCK MORE EFFICIENTLY. PEACE CORPS VOLUNTEERS ALSO TAUGHT FISHERIES DEVELOPMENT, WHICH PROVIDED A SOURCE OF FOOD/PROTEIN AS WELL AS INCOME TO RURAL COMMUNITIES.

— 165 RENEWABLE ENERGY/APPROPRIATE TECHNOLOGY VOLUNTEERS WORKED FULL-TIME ON ENERGY CONSERVING STOVES, CHARCOAL PRODUCTION, SOLAR FOOD DRYING, AND BIOGAS PRODUCTION. ANOTHER 475 VOLUNTEERS WORKED IN THE SAME AREAS IN SECONDARY PROJECTS TO COMPLEMENT THEIR EXISTING JOB ASSIGNMENTS.

— 200 VOLUNTEERS SERVED AS PLANNERS AND SUPERVISORS OF THE CONSTRUCTION OF SMALL DAMS, SPILLWAYS AND IRRIGATION CANALS IN RURAL AREAS, ALSO PROVIDING ASSISTANCE OF POTABLE WATER SYSTEMS. THEIR WORK HAS ENABLED POOR RURAL COMMUNITIES TO ADMINISTER THEIR OWN WATER RESOURCES, AND TO MAINTAIN A PURIFIED WATER SYSTEM LONG AFTER THE PCVS HAVE GONE.

— 1,000 VOLUNTEERS WORKED ON HEALTH EDUCATION AND COMMUNITY HEALTH ORGANIZATION; 200 VOLUNTEERS ASSISTED IN DEVELOPING VILLAGE SANITATION SYSTEMS. THESE EFFORTS INCREASED THE ABILITY OF COMMUNITIES AND INDIVIDUALS TO MEET THEIR OWN HEALTH AND NUTRITIONAL NEEDS IN A SELF-RELIANT WAY.

OUR FISCAL YEAR 1984 REQUEST IS FOR $108.5 MILLION. WE ARE CURRENTLY FUNDED AT $109 MILLION UNDER THE CONTINUING RESOLUTION PASSED BY CONGRESS IN LATE DECEMBER. THE VAST MAJORITY OF OUR RESOURCES - 80% OF THE PEACE CORPS' PROPOSED FY 84 BUDGET - ARE DEDICATED TO THE DIRECT SUPPORT OF OUR OVERSEAS VOLUNTEER OPERATION.

IN 1984, WE WILL CONTINUE TO IMPROVE THE QUALITY OF OUR PROGRAMMING, AS WELL AS OUR PROCEDURES FOR RECRUITING, SELECTING, TRAINING, AND PLACING VOLUNTEERS. BECAUSE OF THE RELATIVELY HIGH NUMBER OF NEW TRAINEES PLACED OVERSEAS IN 1982 AND 1983 (2862 AND 2950 RESPECTIVELY) WHO WILL CONTINUE TO SERVE AS VOLUNTEERS IN 1984, THE MAJORITY OF RESOURCES REQUESTED IN 1984 WILL DIRECTLY SUPPORT VOLUNTEERS ALREADY OVERSEAS. THE REQUESTED BUDGET AUTHORITY WILL FUND APPROXIMATELY 2,500 NEW VOLUNTEERS IN 1984.

THE FIRST PEACE CORPS VOLUNTEERS WILL ARRIVE IN HAITI BY THIS SUMMER AND WILL BE PROVIDING TECHNICAL ASSISTANCE IN THE AREAS OF AGRO-FORESTRY, FISHERIES, AND VOCATIONAL EDUCATION. AN INITIAL CONTINGENT OF VOLUNTEERS WILL ARRIVE IN BURUNDI IN JUNE OF 1983 — THEIR EFFORTS WILL BE DIRECTED TOWARD WATER RESOURCES DEVELOPMENT, FORESTRY, AND SMALL-SCALE AGRICULTURE. WE ARE ALSO CONSIDERING PROGRAMS IN OTHER COUNTRIES.

OUR VOLUNTEERS SERVE TO PROMOTE WORLD PEACE AND FRIENDSHIP; TO HELP OTHERS MEET THEIR OWN GOALS OF SELF-SUFFICIENCY; TO BRING BACK TO THIS COUNTRY A CULTURAL AWARENESS OF THE PEOPLE SERVED, AND TO BRING TO THE HOST COUNTRY AN UNDERSTANDING OF AMERICAN CULTURE. THESE ARE THE THREE GOALS OF THE PEACE CORPS, AND OVER 90,000 RETURNED PEACE CORPS VOLUNTEERS HAVE PROVEN THAT THE PEACE CORPS IS A CONTINUING SUCCESS STORY.

WHEN I TESTIFIED BEFORE YOU LAST YEAR, TWO MONTHS HAD PASSED SINCE THE PEACE CORPS HAD BECOME AN INDEPENDENT AGENCY. WE HAD JUST COMPLETED A REORGANIZATION WHICH I DISCUSSED IN LAST YEAR'S STATEMENT. I ALSO OUTLINED FOR YOU SEVERAL MAJOR INITIATIVES WHICH WE PLANNED TO EMBARK UPON THIS YEAR. THESE NEW INITIATIVES ADDRESSED TRAINING, MANAGEMENT, OVERSEAS PROGRAMMING, PRIVATE SECTOR DEVELOPMENT, INCREASED PUBLIC AWARENESS OF THE PEACE CORPS, STRENGTHENING VOLUNTEER RECRUITMENT, EXPANDING COLLABORATIVE EFFORTS WITH OTHER FEDERAL AGENCIES AND PRIVATE VOLUNTARY ORGANIZATIONS, AND INCREASING VOLUNTEER ASSISTANCE IN FOOD AND ENERGY AREAS. THIS PACKAGE OF INITIATIVES BECAME KNOWN IN OUR AGENCY AS "THE FORWARD PLAN."

THE FORWARD PLAN WAS DESIGNED WITH THE FOLLOWING AIMS IN MIND:

— PROMOTING ECONOMIC DEVELOPMENT AND SELF-SUSTAINING PRODUCTIVE CAPACITY AMONG DEVELOPING NATIONS, ESPECIALLY IN THE AREAS OF FOOD AND ENERGY;

— DEVELOPING JOINT PROGRAMS WHICH BUILD MUTUALLY BENEFICIAL AND APPROPRIATE RELATIONS WITH U.S. PRIVATE SECTOR ENTITIES AND WITH APPROPRIATE FEDERAL AND INTERNATIONAL ORGANIZATIONS IN THE DEVELOPING WORLD; AND

- INCREASING EFFORTS TO DEVELOP NEW OR IMPROVE THE FUNCTIONING OF EXISTING FREE MARKET MECHANISMS AND BUILD LOCAL INITIATIVES IN THE DEVELOPING WORLD.

THE FORWARD PLAN SET OUT THREE-YEAR GOALS WITH SPECIFIC OBJECTIVES AND METHODS FOR REACHING THESE OBJECTIVES. I AM PLEASED TO REPORT THAT WITHIN THE FRAMEWORK OF THE FORWARD PLAN, WE HAVE ACHIEVED SEVERAL ACCOMPLISHMENTS ON SCHEDULE. TODAY I WOULD LIKE TO DISCUSS WITH YOU OUR PROGRESS ON THE INITIATIVES WE BEGAN LAST YEAR, AND OUR PLANS FOR THE COMING YEAR.

PROGRAMMING

TO BEGIN WITH, THE FORWARD PLAN, AS I MENTIONED EARLIER, ENDEAVORS TO PROMOTE ECONOMIC DEVELOPMENT AND SELF-SUSTAINING PRODUCTIVE CAPACITY. THE FOLLOWING PROGRAMS FURTHERED THIS GOAL IN THE NORTH AFRICA, NEAR EAST, ASIA, AND PACFIC (NANEAP) REGION:

- THE PHILIPPINES INCOME GENERATION PROGRAM INCREASED 50%. VOLUNTEERS SUPPORTED GOVERNMENT AND PRIVATE SECTOR EFFORTS TO DEVELOP MORE EFFECTIVE RURAL-BASED PROGRAMS IN AGRI-BUSINESS, FINANCING, AND MARKETING DEVELOPMENT AT THE GRASSROOTS LEVELS.
- FIVE VOLUNTEERS IN TONGA DID EXCELLENT WORK IN THE PROMOTION AND MARKETING OF LOCALLY-CAUGHT FISH---LONG AN AREA OF NEGLECT WHICH HAD RESULTED IN THE ISLAND COUNTRY IMPORTING ALMOST ALL OF ITS FISH NEEDS.
- PEACE CORPS/MICRONESIA'S PRIORITY PROGRAM IN BUSINESS DEVELOPMENT PROVIDED VOLUNTEER SMALL BUSINESS ADVISORS WHO IMPROVED MANAGEMENT, MARKETING, AND PURCHASING PROCEDURES OF NUMEROUS LOCAL BUSINESSES.
- IN THE COOK ISLANDS, VOLUNTEERS IN THE BUSINESS EDUCATION PROJECT ORGANIZED A BANK TRAINING PROGRAM AND DEVELOPED A CURRICULUM FOR BANK PERSONNEL.
- NEPAL VOLUNTEERS CONTRIBUTED TO THE SELF-SUFFICIENCY OF VILLAGES IN FOOD PRODUCTION AND IMPROVED THE BUSINESS TECHNIQUES OF SMALL FARMERS THROUGH INSTRUCTION IN FISH CULTURE METHODS, IMPROVED SEED PRODUCTION AND STORAGE TECHNIQUES, AND FINANCIAL LOAN PROCEDURES.

IN THE INTER-AMERICAN REGION:

- IN SUPPORT OF THE CARIBBEAN BASIN INITIATIVE, A COUNTRY-BY-COUNTRY SURVEY OF POTENTIAL INCOME-PRODUCING PROJECTS WAS CONDUCTED. FOLLOWING THIS, AN IMPLEMENTATION PLAN WAS WRITTEN WHICH FOCUSED PRIMARILY ON SMALL AND MEDIUM-SCALE AGRIBUSINESS DEVELOPMENT AND TECHNICAL ASSISTANCE TO SMALL BUSINESS GROUPS. BEFORE THE YEAR ENDED, A COMPLETE INSERVICE TRAINING MODEL WAS DESIGNED TO TRAIN PEACE CORPS VOLUNTEERS ON HOW TO DO PRE-FEASIBILITY EVALUATIONS AND BUSINESS PLAN DEVELOPMENT.

  IN APRIL AND MAY, PEACE CORPS VOLUNTEERS IN THE EASTERN CARIBBEAN, DOMINICAN REPUBLIC, BELIZE, COSTA RICA, GUATEMALA AND HONDURAS WILL RECEIVE THE INSERVICE TRAINING COURSE. THE PEACE CORPS VOLUNTEERS WILL THEN BEGIN IMMEDIATELY TO WORK WITH HOST COUNTRY OFFICIALS AND FARMERS GROUPS TO DEVELOP PREFEASIBILITY STUDIES, FEASIBILITY EVALUATIONS, AND BUSINESS PLANS FOR PROMISING AGRIENTERPRISES. THE TARGET IS THE COMPLETION OF PREFEASIBILITY ASSESSMENTS ON 120 PROJECT IDEAS AND COMPLETION OF AT LEAST A DOZEN FULL FEASIBILITY ASSESSMENTS

AND BUSINESS PLANS WITH AN ESTIMATED POTENTIAL CAPITAL INVESTMENT OF FROM $8-12 MILLION DOLLARS.

IN THE AFRICA REGION, WE PILOTED NEW PROJECTS IN SEVERAL COUNTRIES, INCLUDING:

- MARINE FISHERIES IN SIERRA LEONE, VILLAGE WOMEN'S COOPERATIVES IN TANZANIA, WOODSTOVES/ENERGY CONSERVATION IN UPPER VOLTA, AND AGROFORESTRY IN KENYA. WE ALSO EXPANDED ONGOING PROJECTS IN SEVERAL COUNTRIES, INCLUDING: ZAIRE (ESPECIALLY IN HEALTH, WATER SYSTEMS DEVELOPMENT, APPROPRIATE TECHNOLOGY, AND EDUCATION); KENYA (WATER DEVELOPMENT, FISHERIES, RURAL WOMEN'S EXTENSION, AND EDUCATION); CENTRAL AFRICAN REPUBLIC (RURAL PRIMARY SCHOOL HEALTH AND EDUCATION); AND GABON (WELL DIGGING/HAND PUMPS, AG EXTENSION, AND NON-FORMAL EDUCATION.)

OUR PLANS FOR NEW PROJECTS FOR THE COMING YEAR INCLUDE:

- ENERGY PROJECTS IN WESTERN SAMOA, WHERE VOLUNTEERS WILL HELP CONSTRUCT WINDMILLS FOR GENERATING ELECTRICITY AND PUMPING WATER;

- FISHERIES PROJECTS IN PEACE CORPS/FIJI, WHERE VOLUNTEERS WILL HELP LOCAL FARMERS GENERATE INCOME AND EMPLOYMENT IN RURAL COMMUNITIES;

- CONSTRUCTION OF NEW IRRIGATION SYSTEMS IN YEMEN TO ADVANCE FOOD SELF-SUFFICIENCY OF RURAL COMMUNITIES.

- INCREASED EMPHASIS ON FOOD PRODUCTION FOR CONSUMPTION AND FOR INCOME GENERATION IN PEACE CORPS/THAILAND. THE AGRICULTURE AND RURAL DEVELOPMENT PROJECTS WILL BE INTEGRATED TO AN UNPRECEDENTED EXTENT, BOTH WITH EACH OTHER AND WITH THE OPERATIONS OF THAI AND U.S. AGENCIES.

- INCREASED CONCENTRATION BY OUR VOLUNTEERS IN PEACE CORPS/PAPUA NEW GUINEA'S AGRICULTURE PROGRAM ON IMPROVING THE MANAGEMENT AND MARKETING SKILLS OF RURAL FARMERS. THIS WILL ALLOW MORE INDIVIDUALS AND COMMUNITIES TO ENTER THE CASH ECONOMY.

- SELF-HELP EFFORTS ON ALL 7 OF TUVALU'S OUTER ISLANDS, INCLUDING PROJECTS IN AGRICULTURE, VEGETABLE PRODUCTION, AND WATER SANITATION. BUILDING LOCAL INITIATIVE WILL BE A MAJOR FOCUS.

- A NEW FISHERIES PROJECT IN TUNISIA, INCLUDING A COMPONENT IN MARKETING MANAGEMENT TO HELP DEVELOP THE MARKET FOR FISH THERE;

- AGRICULTURE, HEALTH, AND EDUCATION PROJECTS IN BURUNDI, WHICH WE ARE ENTERING THIS YEAR; BEEKEEPING AND RICE PRODUCTION PROJECTS IN THE CENTRAL AFRICAN REPUBLIC; FORESTRY PROJECTS IN CAMEROON; REHABILITATION PROJECTS FOR THE HANDICAPPED IN MALAWI.

- FISHERIES, SMALL BUSINESS DEVELOPMENT, SOIL CONSERVATION, AND WATER PROJECTS IN LESOTHO; COMMUNICABLE DISEASE CONTROL IN LIBERIA; COMMUNITY DEVELOPMENT IN MALI; APPROPRIATE TECHNOLOGY COOPERATIVES IN SENEGAL.

- HOUSING PROJECTS IN COSTA RICA, WHERE PEACE CORPS WILL WORK WITH THE COSTA RICAN NATIONAL HOUSING AGENCY TO HELP BUILD 300 HOUSES IN SIX DIFFERENT RURAL SITES.

TRAINING

ANOTHER OF THE GOALS OF THE FORWARD PLAN IS TO DEVELOP AN EFFECTIVE AND EFFICIENT TRAINING STRATEGY FOR PEACE CORPS STAFF AND VOLUNTEERS. THIS PAST YEAR PEACE CORPS EXPANDED ITS AGRICULTURAL PROGRAMS INTO THE AREAS OF POST-

HARVEST STORAGE, PROCESSING, AND MARKETING. THIS EXPANSION INTO POST-HARVEST ASPECTS OF AGRICULTURE IS INTENDED TO ALLOW FARMERS TO MAKE BETTER USE OF MARKETS TO PROVIDE INCENTIVES FOR INCREASED, SELF-SUSTAINING PRODUCTIVE CAPACITY. FOR THIS PURPOSE, SEVERAL NEW TYPES OF TRAINING WERE UTILIZED. FOR GRAIN STORAGE VOLUNTEERS (SUCH AS OUR NEW PEACE CORPS VOLUNTEERS IN TANZANIA), OUR OFFICE OF PROGRAM DEVELOPMENT WORKED WITH KANSAS STATE UNIVERSITY AND SIGNED A CONTRACT WITH USAID TO DEVELOP TECHNICAL PRE-SERVICE TRAINING FOR THOSE VOLUNTEERS. THE OFFICE OF PROGRAM DEVELOPMENT HAS ALSO WORKED ON DEVELOPING IN-SERVICE TRAINING IN THE AREAS OF AGRICULTURE MARKETING/INCOME GENERATION, CROP STORAGE AND DRYING, AND IRRIGATION.

THROUGH THE INFORMATION COLLECTION AND EXCHANGE UNIT (I.C.E.) OF THE OFFICE OF PROGRAM DEVELOPMENT, VOLUNTEERS AND STAFF WERE PROVIDED WITH RELEVANT TECHNICAL INFORMATION TO CARRY OUT VOLUNTEER OBJECTIVES.

TO ASSIST OVERSEAS POSTS IN DESIGNING PROJECTS AND TRAINING VOLUNTEERS IN SMALL BUSINESS DEVELOPMENT, A SECTOR ON COMPETITIVE ENTERPRISE DEVELOPMENT WAS FORMED IN THE OFFICE OF PROGRAM DEVELOPMENT. THIS SECTOR WILL PROVIDE INCREASED PROGRAMMING AND TRAINING OPPORTUNITIES BY INCREASING ITS INTERACTION WITH PRIVATE VOLUNTEER ORGANIZATIONS AND OTHER ORGANIZATIONS SUCH AS THE SMALL ENTERPRISE DEVELOPMENT CENTER AND THE GREATER WASHINGTON IBERO-AMERICAN CHAMBER OF COMMERCE.

WE SET UP AN EXPERIMENTAL SUB-REGIONAL TRAINING CENTER IN JAMAICA TO TRAIN VOLUNTEERS FOR JAMAICA AND THE EASTERN CARIBBEAN. THE CENTER BEGAN OPERATIONS IN APRIL OF 1982, AND OVER 90 VOLUNTEERS WERE TRAINED DURING THE LAST TWO QUARTERS OF FISCAL 82. IN FACT, ALL TECHNICAL SKILL TRAINING FOR INTER-AMERICA (WITH THE EXCEPTION OF FISHERY TRAINING) WAS MOVED INTO THE REGION. THIS IS 30 TO 40 PERCENT LESS COSTLY THAN STATE-SIDE SKILL TRAINING.

WE HAVE DEVELOPED, AND HAVE IN PLACE, A TRAINING PROGRAM REGARDING THE PHILOSOPHY, STRATEGY, TACTICS, AND MENACE OF COMMUNISM AS MANDATED BY SECTION 8(c) OF THE PEACE CORPS ACT. WE WILL SOON IMPLEMENT A REVISED PROGRAM IN THIS AREA, WHICH, WE EXPECT, WILL IMPROVE THIS TRAINING.

THE OFFICE OF TRAINING MANAGEMENT COORDINATION (OTMC) IS COORDINATING AN INDEPTH ANALYSIS OF STAGING PROGRAMS IN ORDER TO RECOMMEND THE MOST EFFECTIVE AND COST-EFFICIENT STAGING MODELS. IT IS ALSO DEVELOPING AN INTEGRATED TRAINING SYSTEM WHICH WILL ENABLE US TO EVALUATE VOLUNTEER TRAINING.

FOR NEXT YEAR, THE PEACE CORPS WILL CONTINUE TO PLACE EMPHASIS ON THE FORWARD PLAN'S GOAL OF PROMOTION OF ECONOMIC SELF-SUFFICIENCY AND THE DEVELOPMENT OF FREE MARKET MECHANISMS. TO FULFILL THESE OBJECTIVES, WE WILL ADD SEVERAL IN-SERVICE TRAINING PROGRAMS (IN THE AREA OF IMPROVED IRRIGATION, IN KENYA AND HONDURAS, FOR EXAMPLE). TRAINING IN POWER GENERATION SYSTEMS (PHOTOVOLTAIC AND MICROHYDRO) AND WIND SYSTEMS WILL BE ADDED TO THE CURRENT ARRAY OF TRAINING IN RENEWABLE ENERGY TECHNOLOGY (ENERGY-CONSERVING STOVES, CHARCOAL PRODUCTION, SOLAR FOOD PRESERVATION, AND SOLAR WATER DISTILLATION).

AND OF COURSE, IN 1984, TRAINING ACTIVITIES WILL CONTINUE TO INCLUDE LANGUAGE INSTRUCTION, TECHNICAL AND CROSSCULTURAL SKILLS, AND USE OF CORE CURRICULUM MANUALS, A STANDARD SET OF TRAINING CURRICULA ESSENTIAL TO ALL VOLUNTEERS REGARDLESS OF ASSIGNMENT. PEACE CORPS TRAINING DOES NOT END WITH THE PLACEMENT OF THE VOLUNTEER. AFTER PLACEMENT, TRAINING CONTINUES WITH AN ARRAY OF SKILL-BUILDING PROGRAMS TAILOR-MADE TO HELP THE VOLUNTEER DEAL WITH CIRCUMSTANCES THAT COULD NOT BE ANTICIPATED DURING THE PRE-SERVICE PERIOD.

COLLABORATION WITH OTHER FEDERAL AGENCIES AND PRIVATE VOLUNTEER ORGANIZATIONS

LAST YEAR I INDICATED THAT WE WERE PLANNING TO INCREASE COLLABORATIVE EFFORTS WITH OTHER FEDERAL AGENCIES AND PRIVATE VOLUNTARY ORGANIZATIONS. SINCE THEN, IN CONJUNCTION WITH OUR FORWARD PLAN GOALS, WE HAVE ACCOMPLISHED THE FOLLOWING:

1. VOLUNTEERS IN TUNISIA ASSISTED IN THE PILOT PHASE OF A RENEWABLE ENERGY PROJECT FUNDED BY USAID AND IMPLEMENTED BY NASA. THESE VOLUNTEERS HELPED INSTALL TWO SOLAR GREENHOUSES, WIND-POWERED PUMPS, AND A PHOTOVOLTAIC POWER SYSTEM. WHEN THE SYSTEM IS COMPLETED, VILLAGERS WILL BE TAUGHT GREENHOUSE VEGETABLE PRODUCTION FOR TRUCK FARMING.
2. VOLUNTEERS IN TUVALU WORKED CLOSELY WITH SAVE THE CHILDREN FOUNDATION IN PROJECTS TO ASSIST THE LOCAL POPULATION ACHIEVE SELF-SUFFICIENCY THROUGH THE DEVELOPMENT OF COOPERATIVES AND INSTRUCTION IN IMPROVED AGRICULTURAL TECHNIQUES.
3. VOLUNTEERS IN MOROCCO, WORKING WITH EQUIPMENT SUPPLIED BY UNICEF FUNDS, BEGAN A NEW PROGRAM TO REHABILITATE WELLS THROUGHOUT THE COUNTRY AND PROPAGATE THE IDEA OF PUMP AND WATER SYSTEM MAINTENANCE.
4. VILLAGE SELF-SUFFICIENCY WAS PROMOTED BY SOLOMON ISLANDS VOLUNTEERS WORKING ON COMMUNITY DEVELOPMENT ACTIVITIES SUCH AS INSTALLING POTABLE WATER SYSTEMS AND ENHANCING AGRICULTURE AND VOCATIONAL EDUCATION ACTIVITIES. FUNDS FOR MANY OF THESE PROJECTS WERE SUPPLIED BY USAID.
5. IN CENTRAL AFRICAN REPUBLIC THE PEACE CORPS SIGNED AN AGREEMENT WITH USAID AND THE HOST GOVERNMENT TO IMPLEMENT A $1 MILLION AGRICULTURE SECTOR PROGRAM.

6. IN ZAIRE, VOLUNTEERS UTILIZED USAID "IMPROVED RURAL TECHNOLOGY" FUNDING TO EXPAND THEIR APPROPRIATE TECHNOLOGY ACTIVITIES INTO TOOLMAKING AND LEATHER TANNING.

7. IN TOGO, THE ANIMAL TRACTION, AG EDUCATION, AND WATER/SANITATION PROJECTS ALL RECEIVED SUPPORT AND FUNDING FROM USAID.

8. IN COSTA RICA, IN COLLABORATION WITH USAID, THE DESIGN AND PLANNING WAS COMPLETED FOR A LOW COST SELF-HELP HOUSING PROGRAM. THE PEACE CORPS WILL WORK WITH THE COSTA RICAN NATIONAL HOUSING AGENCY TO HELP BUILD 300 HOUSES IN SIX DIFFERENT RURAL SITES. AID HAS COMMITTED $300,000 FOR BUILDING MATERIALS, AND APPROXIMATELY 14 VOLUNTEERS HAVE BEEN RECRUITED TO WORK IN THE PROJECT STARTING THIS MARCH.

9. IN THE DOMINICAN REPUBLIC, WORK IS CONTINUING DURING 1983, ON A SUCCESSFUL SWINE REPOPULATION PROJECT IN COOPERATION WITH USAID. VOLUNTEERS ARE DISTRIBUTING PIGS TO COOPERATIVES AND TRAINING FARMERS IN PROPERS PIG MANAGEMENT.

10. IN ECUADOR, PEACE CORPS IS WORKING IN CONJUNCTION WITH THE INTER-AMERICAN DEVELOPMENT BANK, USAID, AND THE MINISTRY OF AGRICULTURE TO ASSIST THE 4-F FOUNDATION IN PROVIDING RURAL YOUTH WITH ENHANCED EARNING SKILLS.

11. IN JAMAICA, USAID PROVIDED $50,000 (JA) IN SMALL PROJECT FUNDS FOR SMALL BUSINESS INCOME-GENERATING PROJECTS BY VOLUNTEERS.

12. IN JANUARY OF 1983 AN AGREEMENT TO COLLABORATE WITH THE GREATER WASHINGTON IBERO-AMERICAN CHAMBER OF COMMERCE WAS SIGNED. PLANS CALL FOR VOLUNTEERS TO WORK WITH CHAMBERS OF COMMERCE IN SOUTH AMERICA, CENTRAL AMERICA AND THE CARIBBEAN IN A PROJECT DESIGNED TO PROVIDE TECHNICAL ASSISTANCE TO SMALL ENTREPRENUERS.

13. A COLLABORATIVE ARRANGEMENT HAS BEEN WORKED OUT WITH THE U.S. DEPARTMENT OF COMMERCE'S NATIONAL TECHNICAL INFORMATION SERVICE (NTIS). PLANS CALL FOR VOLUNTEERS TO ASSIST IN DISSEMINATING TECHNICAL INFORMATION SPECIFICALLY PREPARED TO ASSIST DEVELOPING COUNTRIES. VOLUNTEERS' INITIAL EFFORTS WILL BE CONCENTRATED IN CENTRAL AMERICA BUT WILL LATER BE EXPANDED TO THE CARIBBEAN AND SOUTH AMERICA.

WE LOOK FORWARD TO CONTINUING OUR MUTUALLY BENEFICIAL RELATIONSHIPS WITH USAID AND PRIVATE VOLUNTARY ORGANIZATIONS. WE LOOK AHEAD TO EXPANDED USE OF PARTICIPATING AGENCY SERVICE AGREEMENTS (PASA), PARTICULARLY FOR PROVIDING IN-SERVICE TECHNICAL TRAINING.

I AM PLEASED TO INFORM YOU THAT EARLY THIS YEAR WE JOINED WITH USAID IN A SMALL PROJECTS ASSISTANCE PROGRAM. OUR COUNTRY DIRECTORS IN EACH OF THE 41 COUNTRIES WHERE THERE IS JOINT PEACE CORPS/AID PRESENCE WILL HAVE FUNDS AVAILABLE TO SUPPORT LOCAL, LOW-COST, SELF-HELP PROJECTS, IDENTIFIED AND ASSISTED BY PEACE CORPS VOLUNTEERS, IN THE AREAS OF AGRICULTURE, ENERGY, AND COMPETITIVE ENTERPRISE DEVELOPMENT.

THIS MARCH, A JOINT PEACE CORPS/USAID DISASTER RELIEF CONFERENCE WILL BE HELD IN KENYA. SIMILAR JOINT CONFERENCES TOOK PLACE THIS PAST YEAR IN QUITO, ECUADOR, BARBADOS, AND THE PHILIPPINES WITH USAID'S TECHNICAL AND FINANCIAL SUPPORT.

THIS COMING YEAR WE WILL BE EXPLORING JOINT FUNDING, ADMINISTRATION, AND PROGRAMMING WITH USAID FOR NEW PROGRAMS WHEN WE ENTER BURUNDI IN JUNE OF 1983. FURTHERMORE, THE PEACE CORPS OPERATIONS IN MOST OF THE SOUTH PACIFIC COUNTRIES — FIJI, TONGA, WESTERN SAMOA, KIRIBATI, PAPUA NEW GUINEA, SOLOMON ISLANDS — PLAN TO UTILIZE TO A GREATER AND MORE EFFECTIVE DEGREE THE FUNDS AVAILABLE THROUGH THE ACCELERATED IMPACT PROGRAM (AIP) OF USAID.

IN MOROCCO, PEACE CORPS WILL BEGIN TO SUPPLY VOLUNTEERS TO A LARGE USAID PROJECT IN RANGE MANAGEMENT WITH THE GOAL OF INCREASING CATTLE PRODUCTION CAPACITY.

A MAJOR GOAL OF PEACE CORPS/PHILIPPINES IS TO ESTABLISH CLOSER COLLABORATION WITH THE UNITED STATES AND PHILIPPINE ORGANIZATIONS — INCLUDING THE PHILIPPINE ROTARY CLUB, THE U.S. CHAMBER OF COMMERCE, AND THE PHILIPPINE CHAMBER OF COMMERCE — IN PROJECTS WHICH EMPHASIZE THE CAPACITY-BUILDING PROCESSES OF RURAL DEVELOPMENT TOWARDS SELF-RELIANCE.

MANAGEMENT

IN THE YEAR SINCE THE PEACE CORPS' RE-ESTABLISHMENT AS AN INDEPENDENT AGENCY, WE HAVE EXERCISED CONSIDERABLY GREATER MANAGEMENT CONTROL OVER THE VARIOUS SUPPORT SERVICES PROVIDED TO OUR PROGRAM OVERSEAS. GIVEN THE HIGHLY DECENTRALIZED NATURE OF THE PEACE CORPS' OVERSEAS OPERATIONS, A MAJOR RESPONSIBILITY FOR THIS YEAR AND NEXT IS TO IMPROVE SUPPORT FOR COUNTRY DIRECTORS AND TO STRENGTHEN THEIR MANAGEMENT CAPABILITIES. WE HAVE ALREADY TAKEN A NUMBER OF STEPS TO IMPLEMENT THIS POLICY:

- EACH COUNTRY DIRECTOR CANDIDATE IS THOROUGHLY SCREENED FOR ADMINISTRATIVE MANAGEMENT SKILLS DURING SEPARATE INTERVIEWS WITH KEY MANAGEMENT OFFICIALS, INCLUDING THE ASSOCIATE DIRECTOR FOR MANAGEMENT.
- ADMINISTRATIVE TRAINING FOR COUNTRY DIRECTORS AND THEIR ASSOCIATE DIRECTORS HAS BEEN GREATLY IMPROVED AND EXTENDED. THE DESIGN AND PRESENTATION OF THIS TRAINING DIRECTLY INVOLVES PEACE CORPS LINE MANAGEMENT AT HEADQUARTERS. IN ADDITION, THIS YEAR WE WILL BE WORKING TO INTEGRATE MORE FULLY ADMINISTRATIVE TRAINING INTO THE OVERALL TRAINING PROGRAM FOR OVERSEAS STAFF AND WE WILL BE DEVELOPING FOLLOW-UP, ADMINISTRATIVE TRAINING FOR OVERSEAS STAFF.

PLANS FOR NEXT YEAR INCLUDE:

- A NEW ADMINISTRATIVE INTERN PROGRAM WHICH WILL PROVIDE A CADRE OF HIGHLY-QUALIFIED ADMINISTRATIVE OFFICERS TO OVERSEAS POSTS. INTERNS WILL WORK IN A SERIES OF HEADQUARTERS AND FIELD ASSIGNMENTS ON A ROTATIONAL BASIS BEFORE BEING ASSIGNED FOR FULL TOURS TO POSTS WHICH HAVE INCURRED SPECIAL ADMINISTRATIVE MANAGEMENT PROBLEMS.

- THE COMPLETION OF THE REVISED PEACE CORPS (OPERATIONS) MANUAL WHICH PROVIDES MANAGEMENT POLICY AND PROCEDURAL GUIDANCE TO OUR STAFF — THE FIRST MAJOR REVISION TO THE MANUAL SINCE 1976.
- IMPROVEMENTS IN OUR OVERSEAS AUDIT PROGRAM, INCLUDING BOTH A REDUCTION IN THE TIME BETWEEN AUDITS FROM AN AVERAGE OF ONCE EVERY 46 MONTHS TO ONCE EVERY 30 MONTHS, AND A REVISED AUDIT APPROACH. WE WILL FOCUS NOT MERELY ON PROBLEM IDENTIFICATION BUT ON DEVELOPMENT OF A POSITIVE JOINT PLAN BY AUDITORS AND COUNTRY DIRECTORS FOR RESOLVING PROBLEMS. AUDITORS WILL ALSO PROVIDE ON-SITE TECHNICAL ASSISTANCE, GOING BEYOND THE PAST METHODS OF SIMPLY COMPILING A LIST OF NEGATIVE FINDINGS.

DURING FY 1984 WE WILL ENDEAVOR TO PROVIDE EACH OVERSEAS POST WITH A DESK-TOP COMPUTER. THIS WILL PRODUCE SIGNIFICANT BENEFITS FOR FINANCIAL MANAGEMENT, INVENTORY AND PROPERTY CONTROL, AND VOLUNTEER RECORD-KEEPING.

BY FY 1984 WE WILL ALSO BE CONDUCTING OUR COUNTRY PROGRAM REVIEW PROCESS, AN EVALUATION TOOL WHICH WILL PROVIDE COUNTRY DIRECTORS AND OTHERS WITH SOLID INFORMATION WITH WHICH TO ASSESS AND IMPROVE COUNTRY PROGRAM OPERATIONS. THIS COUNTRY PROGRAM REVIEW PROCESS INVOLVES ALL GROUPS AFFECTED BY THE PEACE CORPS IN EACH COUNTRY — THE VOLUNTEERS AND STAFF AS WELL AS HOST COUNTRY COUNTERPARTS AND MINISTRY OFFICIALS.

ALTHOUGH MOST OF OUR MANAGEMENT EMPHASIS IS, AS YOU CAN SEE, FOCUSED ON SUPPORT OF OVERSEAS OPERATIONS AND STAFF, WE DO HAVE SEVERAL MANAGEMENT INITIATIVES TARGETED PRIMARILY AT HEADQUARTERS OPERATIONS:

- WE ARE EXAMINING VARIOUS OPTIONS FOR IMPROVING THE COST-EFFECTIVENESS OF HEADQUARTERS FUNCTIONS, PARTICULARLY IN AREAS OF ACCOUNTING AND COMPUTER SERVICES.
- WE WILL IMPROVE OUR SYSTEMS OF INTERNAL CONTROL TO ENSURE THAT COMMERCIAL AND INDUSTRIAL GOODS AND SERVICES ARE PROVIDED BY THE PRIVATE SECTOR WHEREVER THIS IS APPROPRIATE AND MORE COST-EFFECTIVE.
- WE ARE IMPROVING OUR MANAGEMENT INFORMATION SYSTEMS TO PROVIDE MORE CURRENT DATA TO HEADQUARTERS ON VOLUNTEER ASSIGNMENTS AND ACTIVITIES AND ON OVERSEAS STAFFING PATTERNS.
- FINALLY, WE ARE CONTINUING TO REALLOCATE POSITIONS WHERE FEASIBLE FROM PEACE CORPS HEADQUARTERS TO OUR COUNTRY POSTS TO ASSURE THAT PRIORITY IS GIVEN TO OVERSEAS STAFFING NEEDS.

OFFICE OF PRIVATE SECTOR DEVELOPMENT

IN MY TESTIMONY LAST YEAR, I INFORMED YOU THAT WE WERE CREATING AN OFFICE OF PRIVATE SECTOR DEVELOPMENT. THAT OFFICE ENJOYED A PRODUCTIVE FIRST YEAR. THE OFFICE INITIATED CONTACTS WITH CORPORATIONS AND FOUNDATIONS TO INFORM THEM OF HOW THEY MIGHT SHARE IN THE WORTHWHILE GOALS OF THE PEACE CORPS.

DURING 1982, THE APPLE COMPUTER COMPANY DONATED $8,000 IN COMPUTER EQUIPMENT AND SERVICES TO BE USED IN A TRAINING PROGRAM IN BOTSWANA, AFRICA. AN AGREEMENT WAS REACHED WITH TEACHER'S COLLEGE OF COLUMBIA UNIVERSITY ON A JOINT

VENTURE TO RECRUIT AND TRAIN VOLUNTEER TEACHERS WHO WILL SERVE IN THE FIELDS OF MATH, SCIENCE, AND HEALTH WHILE EARNING CREDIT TOWARD GRADUATE DEGREES. AN AGREEMENT WAS FINALIZED WITH THE INTERNATIONAL EXECUTIVE SERVICE CORPS TO WORK ON A COLLABORATIVE PROJECT FOR MANAGEMENT TRAINING OF ASSOCIATE COUNTRY DIRECTORS. THE RCA CORPORATION REPRINTED FOR DISTRIBUTION TWO STORIES FROM ITS EMPLOYEES' MAGAZINE SHOWING HOW SERVICE IN THE PEACE CORPS ENHANCES A JOB APPLICANT'S EMPLOYMENT POSSIBILITIES.

THE TOTAL PLEDGES/CONTRIBUTIONS INCREASED 80% OVER 1981 IN THE PARTNERSHIP PROGRAM, AMOUNTING TO A FIGURE OF OVER $75,000.

DURING 1983,THE OFFICE OF PRIVATE SECTOR DEVELOPMENT INTENDS TO EXPAND ITS CORPORATE CONTACTS AND CONTINUE TO INFORM THE PRIVATE SECTOR OF PEACE CORPS ACTIVITIES, AND OF THE WEALTH OF EXPERIENCE IN DEVELOPING COUNTRIES THAT RETURNING PEACE CORPS VOLUNTEERS BRING HOME.

WOMEN IN DEVELOPMENT OFFICE

1982 ALSO SAW THE CREATION OF A WOMEN IN DEVELOPMENT OFFICE (WID) TO RECOGNIZE THE CONTRIBUTIONS OF WOMEN IN THE DEVELOPING WORLD AND TO CALL FOR GREATER AWARENESS OF WOMEN IN PROGRAM DEVELOPMENT. ALSO, A WOMEN-TO-WOMEN PARTNERSHIP PROGRAM WAS CREATED, TO PROMOTE SELF-SUFFICIENCY THROUGH SMALL BUSINESSES WHICH ARE DEVELOPED BY USING SEED MONEY OFFERED BY THE UNITED STATES PARTNER. AS A RESULT, A WHEELCHAIR PRODUCTION BUSINESS FOR MOROCCO'S HANDICAPPED HAS BEEN FUNDED, AS HAS A SEWING COOPERATIVE WHICH PRODUCES BLOUSES IN HONDURAS, AND A CANNING AND FOOD PROCESSING PLANT IN COSTA RICA, ALL OWNED AND OPERATED BY WOMEN.

IN SEPTEMBER 1982 THE NEWLY-CREATED WOMEN IN DEVELOPMENT OFFICE AT PEACE CORPS HOSTED A SYMPOSIUM AT THE WHITE HOUSE ATTENDED BY APPROXIMATELY 300 PARTICIPANTS FROM BOTH PUBLIC AND PRIVATE SECTOR TO EMPHASIZE THE PEACE CORPS' COMMITMENTS TO RECOGNIZING THE CONTRIBUTIONS OF WOMEN IN THE DEVELOPING WORLD.

NEXT YEAR, PEACE CORPS WILL SEEK TO ENCOURAGE DEVELOPMENT PROGRAMMING THAT FULLY REFLECTS THE ROLE OF WOMEN IN DEVELOPING COUNTRIES. WE WILL CONTINUE TO ENCOURAGE PRIVATE SECTOR DEVELOPMENT THROUGH OUR WOMEN-TO-WOMEN PARTNERSHIP PROGRAM.

RECRUITMENT AND PLACEMENT OF VOLUNTEERS

SINCE LAST YEAR, THE PEACE CORPS HAS ENDEAVORED TO STREAMLINE ITS PROCESSES FOR MATCHING THE THOUSANDS OF REQUESTS FOR VOLUNTEERS OVERSEAS WITH THE MANY AMERICANS WHO WANT TO SERVE. THE FOLLOWING IMPROVEMENTS IN RECRUITMENT EFFICIENCY HAVE BEEN MADE:

1. FIELD SERVICE CENTERS CAN NOW COMMUNICATE DIRECTLY WITH THE COMPUTER BANK WHICH LISTS ALL AVAILABLE OPENINGS FOR VOLUNTEER SERVICE ABROAD. THIS ON-LINE CAPABILITY SIGNIFICANTLY IMPROVES OUR ABILITY TO RESPOND TO APPLICANTS REGARDING THE KINDS OF VOLUNTEER POSITIONS WHICH MIGHT BE OPEN TO THEM.
2. AN AUTOMATED COST ACCOUNTING SYSTEM NOW HELPS THE PEACE CORPS TO IDENTIFY WHICH TECHNIQUES ARE BEST FOR LOCATING VOLUNTEERS WITH SKILLS WHICH ARE IN HIGH DEMAND OVERSEAS.
3. A PAPERWORK MANAGEMENT ANALYSIS OF OUR RECRUITING PROCESSES HAS LED TO GREATER USE OF COMPUTER GENERATED REPORTS AND MICRO FILM TO MANAGE THE FLOW OF THE 18,102 APPLICATIONS RECEIVED IN THE 15 MONTH PERIOD.

FUTURE PLANS FOR RECRUITMENT CALL FOR FURTHER AUTOMATION IN OUR 17 DOMESTIC FIELD LOCATIONS. THIS WILL ALLOW US TO CORRESPOND MORE QUICKLY WITH APPLICANTS AND TO HELP SPEED THEM THROUGH THE CLEARANCE PROCESS.

WE ARE CONTINUING TO DEVELOP OUR OUTREACH STRATEGY DESIGNED TO GENERATE BROAD-BASED LEADERSHIP SUPPORT AMONG STATE AND LOCAL GOVERNMENTS, CORPORATIONS, UNIVERSITIES, FOUNDATIONS, AND PROFESSIONAL ASSOCIATIONS TO ASSIST IN IDENTIFYING AND RECRUITING CANDIDATES WHO WOULD REPRESENT THE DIVERSITY IN SKILLS OF THE AMERICAN PEOPLE.

WITH REGARD TO SELECTION AND STAGING OF VOLUNTERS, PEACE CORPS CANDIDATES ARE SCREENED AND RECEIVE INITIAL INTRODUCTION TO THE PEACE CORPS CORE TRAINING CURRICULUM PRIOR TO OVERSEAS DEPARTURE.

APPROXIMATELY 650 CANDIDATES WILL GO THROUGH THE CENTER FOR ASSESSMENT AND TRAINING (CAST) IN FY 1984. THIS EIGHT-DAY PROGRAM IS A SCREENING TOOL WHICH IS SCHEDULED PRIOR TO INVITATION TO THE PEACE CORPS, PARTICULARLY FOR POTENTIAL PCVS WHO MAY BE ASSIGNED TO THE MOST DIFFICULT PEACE CORPS POSTS. CAST REPLICATES ACTUAL SITUATIONS AND EXPERIENCES THAT VOLUNTEERS ARE LIKELY TO ENCOUNTER OVERSEAS, AND THEIR RESPONSES AND TOTAL PERFORMANCES ARE JUDGED PRIOR TO THEIR SELECTION AS VOLUNTEERS. BASED ON PAST EARLY TERMINATION AND PERFORMANCE DATA, HOST COUNTRY BACKGROUND INFORMATION, AND PEACE CORPS COUNTRY STAFF JUDGMENT, CAREFULLY SELECTED COUNTRIES WILL UTILIZE THIS APPROACH TO TRAINING AND SELECTION.

RECENTLY THE CENTER FOR REASSESSMENT AND TRAINING (CREST) PROGRAM WAS DEVELOPED. CREST IS A FIVE-DAY PROGRAM WHICH INCLUDES THE TRAINING COMPONENTS OF THE CAST, BUT IS PROVIDED AFTER THE VOLUNTEERS ARE ALREADY SELECTED, PRIOR TO THEIR DEPARTURE OVERSEAS. IT OFFERS THE TRAINEES AN OPPORTUNITY TO RE-ASSESS THEIR TWO-YEAR COMMITMENT TO PEACE CORPS, WHILE UNDERGOING TRAINING DESIGNED TO INTRODUCE PEACE CORPS TRAINING CURRICULUM. SINCE ITS INCEPTION IN AUGUST OF 1981, 1813 TRAINEES HAVE PARTICIPATED IN THE CREST PROGRAM, AND 1120 CANDIDATES ARE EXPECTED TO PARTICIPATE IN 1984.

THE REMAINING TRAINEES (APPROXIMATELY 1000) WILL ATTEND THE TRADITIONAL 3½ DAY STAGING. HOWEVER, THIS PROGRAM IS BEING REDESIGNED TO INTRODUCE MORE EFFECTIVELY THE PEACE CORPS CORE TRAINING CURRICULUM. THIS PROGRAM SERVES THE NEEDS OF COUNTRIES NOT REQUIRING THE MORE RIGOROUS CAST OR CREST PROGRAM.

THE PLACEMENT UNIT OF THE PEACE CORPS WAS RESPONSIBLE FOR PLACING 2863 NEW VOLUNTEERS INTO OVERSEAS ASSIGNMENTS DURING FISCAL YEAR 1982. THIS FIGURE WAS UP FROM 2,695 IN FY 1981.

IN FY 1983, ABOUT 2950 VOLUNTEERS WILL BE ASSIGNED OVERSEAS. IN FY 1982, THE PLACEMENT UNIT WAS SUBSTANTIALLY MORE SUCCESSFUL IN RESPONDING TO OVERSEAS REQUESTS, AND WERE ABLE TO FILL 72% OF REQUESTS, UP FROM 60% IN FY 1981.

IT IS ANTICIPATED THAT ABOUT 2500 NEW VOLUNTEERS WILL BE PLACED IN FY 1984.

PUBLIC AWARENESS

LAST YEAR, I POINTED OUT TO YOU THAT DESPITE OUR EXCELLENT RECOGNITION OVERSEAS, A LACK OF PUBLIC AWARENESS OF THE PEACE CORPS CONTINUED IN THIS COUNTRY. I HAVE SPOKEN THROUGHOUT THE COUNTRY TO INFORM THE AMERICAN PEOPLE THAT THE PEACE CORPS IS ALIVE AND WELL, AND NEEDED NOW MORE THAN EVER. NEW PUBLIC SERVICE ANNOUNCEMENTS FOCUSING ON THE INDIVIDUAL SKILLS AND TALENTS OF PARTICULAR VOLUNTEERS HAVE BEEN PRODUCED AND APPEAR ON TELEVISION STATIONS ACROSS THE COUNTRY. SEVERAL CONGRESSMEN AND SENATORS HAVE GENEROUSLY GIVEN US SPACE IN THEIR NEWSLETTERS SO THAT THEIR CONSTITUENTS COULD BE REAPPRISED OF THE PEACE CORPS. OTHER LEGISLATORS HAVE WRITTEN ABOUT US IN THEIR HOMETOWN NEWS COLUMNS, AND SPOKEN ABOUT US ON RADIO PROGRAMS. THIS HAS EVOKED CONSIDERABLE INTEREST IN THE PEACE CORPS, AND WE ARE VERY GRATEFUL TO YOU IN THE CONGRESS FOR YOUR EFFORTS.

CONCLUSION

IN SUMMARY, I AM VERY PLEASED TO INFORM YOU OF THE PEACE CORPS' FORWARD PROGRESS THIS PAST YEAR, AND OUR PLANS FOR FY '84 UNDER THE ADMINISTRATION'S REQUEST OF $108,500,000. IT HAS BEEN AN EXCITING AND FULFILLING YEAR FOR ALL OF US, AND I AM CONFIDENT THAT WE WILL CONTINUE TO REACH THE GOALS WE SET OUT FOR OURSELVES IN THE FORWARD PLAN. I AM GRATEFUL THAT MANY OF YOU TOOK THE TIME THIS YEAR TO VISIT A PEACE CORPS PROJECT. I HOPE EVEN MORE WILL STOP AT A SITE IN THE NEAR FUTURE. OUR VOLUNTEERS WILL WELCOME YOU, AND DEMONSTRATE HOW EFFECTIVE, OR SHOULD I SAY COST-EFFECTIVE, OUR PROGRAM IS. THANK YOU FOR THE OPPORTUNITY TO APPEAR BEFORE YOU TODAY ON BEHALF OF THE PEACE CORPS.

CURRENT CONDITION OF PEACE CORPS

Senator **Kasten**. Did you say 700,000 people?

Ms. **Ruppe**. No, 7,900 inquiries came in over our WATS line. I wish it were 700,000. We will work on that for next year.

Senator **Kasten**. I was going to take you off the radio programs.

Ms. **Ruppe**. We do expect to get 18,000 applications this year.

Senator **Kasten**. I just heard 700. I thought that was wrong. I have been spending too much time in the Budget Committee. [Laughter.]

I think it is fair to say that the Peace Corps is in great shape, and it is due in large part to you and the group of people you have put to work there. We are happy that through negotiations we are not concerned with a request for a reduction in funds. We do not have to fight that battle, at least not in a significant way.

COUNTRIES SCHEDULED FOR PEACE CORPS ATTENTION

I would like to spend just a minute discussing some of the longer range questions for a start. Maybe if you could give us an idea of what countries you may be considering moving into over the next year or two, possibly what countries you may be considering moving out of in the next year or two, and what general direction or trend would you look to in terms of goals?

You mentioned briefly a 3-year plan. But where are we going at 2, 3, 5 years?

Ms. **Ruppe**. The year's projection for this year are 2,960 volunteers and for fiscal year 1984 it would be an input of about 2,500 trainee input. We do not have a tremendous flexibility to be aggressively seeking new country entries. However, we have had ongoing negotiations with a number of countries.

Some of those countries would prefer that our negotiations and our contacts with them be kept on a rather quiet plane at the present moment, so what I would be very pleased to do would be to present a full report under confidential cover to the committee which you could review to get a good idea of just where we stand in our negotiations.

This past year we phased out of Malaysia. I visited there just 2 or 3 weeks ago, and it was a very successful transfer. The Government wants to stay in close contact with us over the upcoming years to see if there could be other avenues for Peace Corps there. But we felt that Malaysia had reached a level of development that indicated our resources were needed more in other countries.

This summer we will be going into Haiti. We will have volunteers there in the next 3 months. Burundi, in Africa, is also a country we will be entering. As far as any other departures from countries, we have all of our countries continually under evaluation to determine if they have reached a sufficiently high level of development at which our resources could be used more effectively elsewhere.

So I would like to send that report, if I could, under confidential cover as to what countries we are specifically discussing.

VOLUNTEERS IN HONDURAS AND NICARAGUA

Senator **Kasten**. I noticed some of the volunteers are working in refugee camps in Honduras along the Nicaraguan border. We all know about fighting going on in those areas. Are you concerned about those volunteers? What specifically is going on there with those volunteers? Are they in fact close to some of the dangerous areas?

Ms. **Ruppe**. We really do not feel they are. We are very cognizant of the safety of our volunteers. The Ambassador was just in my office this morning, so I guess your question could not be any more timely. We have had some volunteers working in the refugee camps who have been highly effective, but he felt the situation was secure and their work was very valuable.

So we are constantly watching to insure that they are not in dangerous areas, but he reassured me today as to their security.

Senator **Kasten**. Senator Specter.

TOTAL CURRENT PERSONNEL IN PEACE CORPS

Senator **Specter**. Thank you, Mr. Chairman.

Ms. Ruppe, as you know, I have had a special interest in the Peace Corps, having served on the National Advisory Council many years ago, and I have followed your work. I join with Chairman Kasten in complimenting you on the job you have done.

Would you summarize for me where the Peace Corps stands on overall numbers? For example, how many are in the Corps today compared to the number in the Corps at the highest point in the Corps' history?

Ms. **Ruppe**. In 1967 we had a budget of $110 million and we had about 15,000 volunteers serving.

Senator **Specter**. Was that the high point in the number of volunteers?

Ms. **Ruppe**. Yes.

Senator **Specter**. Was that also the high point in budgeting?

Ms. **Ruppe**. Yes.

In 1968, the Congress authorized $115.7 million, the largest amount in our history.

Senator **Specter**. What is the total number of volunteers now?

Ms. **Ruppe**. We are approximately 5,200. It is hard to catalog because we continually have trainees going in and volunteers coming out. We say we have around 5,000, but at the present moment, there are 5,200.

Senator **Specter**. My recollection is we appropriated more money than you asked for last year. Is that right?

Ms. **Ruppe**. Yes.

Senator **Specter**. Were you able to make good use of that money?

Ms. **Ruppe**. We feel we were able to make very good use of it because that brought us to the current services level, which means we could maintain our program. That has allowed us to increase the number of trainees and go overseas, and the majority of the money has been used for that purpose. Some of it was used to absorb pay increases.

Senator **Specter**. How much more did we appropriate than you asked for last year?

Ms. **Ruppe**. We asked for $97,500,000 and we received $109 million.

CURRENT BUDGET REQUEST

Senator **Specter**. And how much have you asked for this year?

Ms. **Ruppe**. We this year have a mark of $108,500,000, which I think is a great show of support by the administration. They have seen our program in action now.

Senator **Specter**. How do you account for the increased request the administration has made on your behalf?

Ms. **Ruppe**. I think that they truly had an opportunity to see the value of the program in the field and have heard the messages of Ambassadors, State Department and AID personnel, traveling Congressmen, Senators and people from the private sector who have indicated that this is a program that is working, that is highly successful, and that is very cost-effective.

We keep reiterating the fact of how cost-effective we are, and how much we bring back to the United States.

COST-EFFECTIVENESS OF PROGRAM

Senator **Specter**. Can you particularize or specify how it is cost-effective?

Ms. **Ruppe**. Just in the one instance of having a trained person doing a meaningful role overseas. The AID or State Department would estimate it would cost anywhere from $70,000 to $100,000 to have someone overseas because they would probably have to pay for support of families and schooling. Business might estimate anything from $150,000 to $200,000.

If we simply take the number of volunteers and divide it into our whole budget, we come out to about $22,000 a year for a trained American to be kept in the field for a year, and AID recognizes this value because we now are coordinating with them to a greater degree. They see that we have this tremendous human resource, Americans who are trained in language and willing to serve in remote and difficult areas.

COMPETITION FOR INFLUENCE WITH SOVIETS

Senator SPECTER. Ms. Ruppe, what would be an example where the U.S. Peace Corps comes into closest competition with, say, the Soviet Union in one of the Third World nations where we are competing with the Soviets for influence?

Ms. RUPPE. Well, most of the Soviet intervention I have seen has been more in a military sense, which means that the country is normally insecure so we do not have volunteers serving.

Senator SPECTER. Is there any nation, say in South Africa or Central America, where the Soviets are trying to expand their influence where the Peace Corps is present where there might be some demonstrable accomplishment of the Peace Corps in competition with the Soviet Union?

Ms. RUPPE. It is difficult to answer because normally I make comparisons on a development level sense, and I do not see in African countries I have visited much resources donated by the Soviet Union for development.

So I guess one thing that could be said is we have got 2,300 American volunteers working on peaceful development in Africa, as opposed to perhaps other military forces. But I would be happy to try to respond to that question in more detail, Senator.

Senator SPECTER. I would be interested to know that.

[The information follows:]

PEOPLE-TO-PEOPLE PROGRAM

The Peace Corps is, as Congress intended it to be, a people-to-people program. Inasmuch as Peace Corps is not involved in any way with intelligence-gathering activities, we have no real knowledge of the extent of Soviet activities in the countries where Peace Corps Volunteers serve. As this question relates to comparison with Soviet activity, the State Department would have the data to respond in detail to this question.

The presence of 5,000 carefully selected and trained Peace Corps Volunteers living, working, and teaching at the village level in 62 lesser developed countries around the world provides a powerful example to both host country governments and their people of the very best that the American political system has to offer. This tangible example of the American beliefs of self-reliance, voluntarism, and that helping people to help themselves is the most enduring contribution our country can make to foreign development, is demonstrated every day in myriad ways in Africa, Latin America, and the Pacific. It is this example of democracy in action that provides the best example of the U.S. Peace Corps as a stabilizing influence contributing to the development of those countries where we serve. As President Reagan succinctly stated at the International Meeting on Cooperation and Development in Cancun, Mexico, in October 1981, "We recognize that each nation's approach to development should reflect its own cultural, political and economic heritage. That is the way it should be. The great thing about our international system is that it respects diversity, and promotes creativity."

It is this approach, a culturally sensitive, people-to-people approach, that the Peace Corps does best, and that provides the clearest example to our African, Latin, and Pacific neighbors of the United States' contributions to their development. By implication, of course, this example will always eclipse the Soviet Union's efforts to destabilize foreign governments. Although never in direct competition, but always through indirect comparison, the governments and people of the developing world will be able to distinguish between American respect for diversity and the Soviet goal of totalitarianism.

PEACE CORPS STRENGTHS

Again, data on the extent of Soviet activity and influence in some of the countries where the Peace Corps operates should be available at the State Department. The Peace Corps does not have such information.

The Peace Corps' true strengths are: its reputation and policy of remaining apolitical while providing needed assistance in a host country; the sheer numbers of volunteers who serve and have served in those countries; and the fact that those who serve are representatives of the diversity, the strengths, and the humanitarianism of the American people.

We are particularly proud of the Peace Corps' growing contribution to peace through development, for example, in the Caribbean Basin, and believe that our programs play an integral part in the President's Caribbean Basin Initiative. We are firmly convinced that our efforts there will have a significant counterbalance to Soviet influence in that area. We have more than 100 Volunteers with the Dominican Development Foundation, who assist small business entrepreneurs in the preparation of feasibility studies and loan applications, planning, marketing and accounting. We have programs throughout the islands of the Eastern Caribbean in business and community development, agriculture, and health services. We have opened a new program in Haiti and the first Volunteers will arrive there this year to provide technical assistance in forestry, fisheries, and vocational training. We have major programs in Guatemala, Honduras, and Costa Rica helping the poorest of their people to help themselves through our programs in rural development and agricultural extension.

Peace Corps Volunteers have for twenty-one years shown people how they can solve their problems within a democratic framework which emphasizes self-help, self-reliance, self-determination, peace, and freedom. This has given thousands of people an alternative to turning to political groups indirectly linked to and supplemented by the Soviet Union.

COMPETITION WITH SOVIET UNION

Senator **SPECTER**. That is the critical factor—how we are competing with the Soviet Union—and you have Peace Corps volunteers. That is a tremendous accomplishment we all sense, and to the extent you can particularize how we are using the Peace Corps effectively in that kind of competition, there might be a real issue as to expanding the role of the Peace Corps.

We are talking about $60 million additionally for El Salvador in hearings which we had before the subcommittee with Secretary Shultz. We are talking about tremendous sums of money in many quarters of the world. And since we have a cost-effective agency, let us take a look at that aspect, which might be persuasive to expansion.

You said there are 62 countries now. Do you know how many the Peace Corps was in in 1967?

Ms. **RUPPE**. I would have to look that up. I would say it would be around 51.

SITUATION IN MICRONESIA

Senator **SPECTER**. Just a couple more brief questions. Do you know what has happened in Micronesia with the constitution there? That was an assignment I had in 1972. I was asked to go to Micronesia to arbitrate a dispute between the Air Force and the Micronesian Government.

Senator **KASTEN**. As a Peace Corps volunteer?

Senator **SPECTER**. I am not sure. I am not sure. [Laughter.]

All I know is they paid my plane fare. There was a Peace Corps lawyer who was advising the Micronesians about how to get independence, and the Air Force generals were very unhappy because we were about to lose our bases, and I had been in the Air Force many years before and I was an attorney at the time on the advisory council.

I went and arbitrated the dispute simply by saying that a lawyer had a duty to represent his client. It did not take long, and I was able to spend the rest of the afternoon on the beach. [Laughter.]

But I would be interested to know what has happened there. I read about it from time to time in the New York Times, and I see that there is some issue now in Palau that I read about.

Ms. Ruppe. Let me get a report to you on that. We have an active program there. We recently moved our headquarters to Ponapei, which is a 1,500-mile move, and I would be happy to send a report to you.

[The information follows:]

MICRONESIA

Micronesia, a trust territory of the United Nations administered by the United States, has existed with limited self-government since the establishment of the Congress of Micronesia in 1965. Negotiations commenced in 1976 to determine the future of the territory. During this period of negotiation, the districts reassembled into states, with some seeking autonomy. In 1976, the Northern Marianas requested to become a permanent territory of the United States following the termination of the United Nations trust. The other member states of Micronesia (Republic of Marshall Islands, Republic of Palau, and the Federated States of Micronesia) have negotiated a joint "compact of free association," guaranteeing certain rights to self-government, yet respecting U.S. security interests in the region.

The Palau Constitution and Northern Marianas Constitution, dividing the government into three separate branches, are similar to the U.S. Constitution. Both the Federated States of Micronesia and the Marshall Islands have constitutions creating parliamentary systems of government. Sixty-two percent of the electorate of Palau approved the February 10 plebiscite calling for the compact. Plebiscites are currently scheduled for 1983 in the other states to determine the fate of the territory. Upon their approval, the U.S. Congress and Senate will vote on approval and submit the request to the United Nations Security Council and Trusteeship Council for final approval.

Senator Specter. My final statement is just a comment. One of my key advisers, Bill Wilcox, has joined the Peace Corps early this year and gone to Jamaica, and I do hope that he will not do well. [Laughter.]

And that he will find it necessary to return to my staff.

Ms. Ruppe. I certainly hope he completes his term. I would never encourage one of our volunteers to terminate prior to completion of service, but immediately upon ending we will send him back, and I am sure you will find him an even better staff member.

Senator Specter. He is a fascinating man. I came to know him many years ago when he was executive director of the Greater Philadelphia movement in Philadelphia. Then he became secretary of community affairs to the Governor of Pennsylvania for a number of years and then deputy director of emergency agency, and on my staff at the age of 63, with social security in his pocket, he went off to Jamaica with your organization, for which I am still anguished.

Ms. Ruppe. Would you consider going over to visit him and doing an evaluation of how he is doing for us?

Senator Specter. I would consider it, if he would. [Laughter.]

Thank you.

Senator Kasten. Not only has the administration recognized the need for this program, but we also have had some pretty strong negotiators as we were looking for that figure. I think this number is right, and I agree with you that if there are ways we can look at a couple of years and see how we can make some more constructive changes, the subcommittee should look at that.

FIELDING OF PEACE CORPS VOLUNTEERS

Last year we talked about your initiative with respect to private voluntary organizations. You mentioned it just in passing, having to do with those which might directly field some Peace Corps volunteers. At that time, no Peace Corps volunteers had been fielded through any of the PVO's, and you said you were working on negotiations with certain people to establish agreements. What is the current situation?

Ms. Ruppe. Well, the ones we had hoped very much would come to fruition actually failed incountry. There was a breakdown of understanding between the PVO and the country. I would be happy to send you a report on that.

Right now we have been discussing the possibility of fielding some volunteers in the Sudan with the TransCentury Corporation. Under this program, we would pay for the recruitment, training, international travel and readjustment allowance, and the private organization would pay for all incountry volunteer support costs. We work together in almost every country we are in.

We are working with private voluntary organizations, helping them successfully complete their projects, so we do feel this is something we should continue to work on because it would be a very inexpensive way and, I think, quite a good way of the Peace Corps being involved in other countries without the heavy overhead of an office staff.

Therefore, we would like to continue working on this type of arrangement.

Senator Kasten. But you do not right now have a specific——

Ms. Ruppe. We do not have a specific one. Those we have been working on, for one reason or another, incountry have not been fulfilled.

[The information follows:]

PVO Collaboration

Peace Corps' present efforts to promote further collaboration with private voluntary agencies (PVOs) take three approaches:

(a) Peace Corps is presently working with the new TransCentury Foundation and the Office of Private and Voluntary Cooperation of AID to gather data on current and recent Peace Corps/PVO collaborative projects. As the majority of these collaborative efforts are initiated at the field level, specific information about project objectives, procedures and outcomes is not readily available in Washington at the present time. The collected data will be used by the new TransCentury Foundation to design a guidebook for Peace Corps/PVO collaboration, as well as general and specific procedural guidelines.

(b) Discussions continue with a few PVOs which have indicated interest in fielding Peace Corps Volunteers to work in projects in countries where there is no Peace Corps presence at this time. In each case, the project under discussion is in the very early stages. No specific agreements between Peace Corps and the PVOs are anticipated until formal requests from the host governments have been received and details of Volunteer work sites, trainee assignment criteria, and host country/counterpart roles are identified.

(c) Two "Memoranda of Understanding," or collaborative agreements have been signed by Peace Corps and PVOs in recent months. The two private organizations are: the Greater Washington Ibero-American Chamber of Commerce, and the International Small Enterprise Development Center of Xenia, Ohio. In these memoranda of understanding, Peace Corps and the respective PVOs agree to pursue mutually acceptable joint efforts to conceptualize, plan, coordinate, implement and promote projects and activities for economic development agreeable to the host countries. The intent of these broad general agreements is to generate country-specific requests for Peace Corps Volunteers as a result of such collaborative programming at the field level. Negotations are currently underway with a number of other PVOs to complete similar agreements.

SKILLED STATUS OF VOLUNTEERS

Senator KASTEN. The field visits by committee staff turned up what they report as a common thread throughout a number of countries in which the Peace Corps operates, specifically in relation to countries requesting very highly skilled volunteers as opposed to the general Peace Corps volunteer, which is the backbone of the program.

Are you having difficulty in educating the countries that Peace Corps is in about the nature of Peace Corps volunteers and that, by and large, highly skilled volunteers simply are not as available, I should say, and that this is not really the idea behind the Peace Corps?

You said that you could place every math and science teacher you could find. Are people pushing you to try to get more and more highly skilled people? Is that a constant push?

Ms. RUPPE. Yes. They would very much like us to be providing extremely highly skilled people. Many times they are asking for someone with a doctorate or a master's degree, which is really difficult in scarce skill areas for us to recruit. So our directors and program managers continually work with host country agencies in developing projects which will employ the skills of largely generalist volunteers well-trained by the Peace Corps to complete a project successfully.

We are doing stateside training. We are trying with inservice training during the course of work with the volunteers to upgrade their skills. Many countries may insist on requesting more specialized skilled volunteers, but we try to be very frank and explain to them the small probability of meeting some of those requests.

However, to a great degree our host country agencies are accepting and enthusiastic about the generalist volunteers particularly when they see the success of these projects. Within Washington, we are also trying to discover ways we might be able to specifically skill-train generalists.

I notice when I travel that one of the major findings of many of the ministers incountry is that our volunteers, whether they are highly skilled, or whether they are skilled and motivated as generalists, impart an enthusiasm and a feeling in the people they work with that the problems are solvable, and many countries note that it is this spark that our volunteers bring.

That takes personal skills, motivation and dedication, so we feel that we are trying to be honest with the countries we are in, but, on the other hand, in recruiting we also try to get those scarce skills. But we cannot do it in the numbers requested. Math and science teachers are in extremely short supply here in the United States, but we feel we can have effective teachers on the Harambee level school in Kenya, which is in the very rural area, where some of these countries themselves are sending out high school graduates to teach from their math notes.

Therefore, a college graduate from the United States with specific skilled training can do a very good job.

SUBMITTED QUESTIONS

Senator **Kasten**. I have no further questions at this time. There may be questions we wish to submit to you in writing and hopefully you will get back to us with that information. We would also appreciate your sharing information in terms of countries.

Let me once more just say thank you. It has been a pleasure to work with you and I look forward to next year.

Ms. **Ruppe**. Thank you very much.

[The following questions were not asked at the hearing, but were submitted to the Peace Corps for response subsequent to the hearing:]

QUESTIONS SUBMITTED BY SENATOR KASTEN

Senator Kasten: In last year's hearing, we brought to your attention a case whereby a foreign national who had been brought to Washington was not covered by health insurance. While that specific case was being taken care of, you indicated that you would be looking at the overall policy with respect to coverage of host country nationals when they came to this country. What has been the result of your investigation into that policy?

Loret Ruppe: Investigation into this matter has indicated that the problem was partially resolved in 1979 by an amendment to Section 10 of the Peace Corps Act to permit the Peace Corps to provide hospitalization and medical treatment to Foreign Service local employees, who are within the United States for Peace Corps training for illness or injuries, other than those arising our of the course of their employment, which began during the employee's travel or near the beginning of such travel, and which require immediate health care.

There is currently a gap in coverage for illness or injury incurred outside of travel and found to be non-job related. I am now evaluating a proposal to provide low cost short term health insurance to cover accidental injury outside the scope of their employment to cover this period while FSNs are in the U.S. for training.

Senator Kasten: When the staff traveled to Tunisia this past winter, they were shown a renewable energy project located approximately 100 kilometers from Tunis. This was an A.I.D. funded photovoltaic system designed to promote agricultural development in a remote village which would not otherwise expect to get electricity any time soon. While the project may be interesting as a demonstration, it is difficult to see how the expenditure of $1,250,000, which would benefit only about 140 people, is justified. It is too late to suggest revision or cancellation of this particular project; I bring it to your attention because Peace Corps volunteers are involved in overseeing that project. You also mention on Page 7 of your statement that the Peace Corps will continue to place emphasis on training in power generation systems, including photovoltaic and microhydro. I am concerned that limited Peace Corps dollars be used in worthwhile projects -- it would be unfortunate if the Peace Corps got involved in too many of these types of projects.

Loret Ruppe: The Peace Corps gets involved with projects at the request of the host country government. The Tunisian Society for Gas and Electricity (STEG) asked Peace Corps to provide them with two Volunteers who could teach villagers how to grow vegetables in a village oriented to cereal and grain production. It is true that these vegetables will be grown in greenhouses which are part of a sophisticated renewable energy project, but the two Volunteers in question are agricultural, not high tech. They were recruited for their positions under the crop extension skill cluster. Their success in this project lends greater credibility to Peace Corps' agriculture program, which includes work in crop and plant protection, soil science, animal husbandry, beekeeping, and farm machinery repair.

The Peace Corps Volunteers in Hammam Biadha have neither the authority nor the expertise to "oversee" AID's renewable energy project. Because they live in the village and are expected to help its inhabitants adjust to the new technology, they are involved in some of the manual installation of the equipment, but they are neither technical experts nor supervisors.

Senator Kasten: You mention in your statement two projects in Morocco -- one a collaborative effort with UNICEF to rehabilitate wells -- and the other a range management project. When the staff was in Morocco this past winter they were struck by the volunteers' frustration at only being allowed to teach English. The inference was that the volunteers had hoped to be doing more projects like the ones you mention in your statement. Are you having more success in expanding the Peace Corps program in Morocco beyond teaching English?

Loret Ruppe: Out of the 167 Volunteers currently serving in Morocco, 94 are teachers of English as a Foreign Language, approximately 56%. As these numbers indicate, Peace Corps/Morocco has had great success in expanding its program beyond teaching English. Though the TEFL program is and has been traditionally the largest (at Morocco's request -- the Ministry of Education has consistently requested that Peace Corps expand its numbers), Volunteers are also involved in vocational education (29 PCVs), special education (18 PCVs), rural water supply (7 PCVs), range management (7 PCVs), and inland fisheries (4 PCVs).

According to Morocco's Country Management Plant for FY 84, the percentage of English teachers will drop to 50% based on trainee requests not only for the programs mentioned above, but also for new programs in freshwater capture fisheries, women's vocational training, marine fisheries, and math/science education.

Senator Kasten: In your statement you indicate that 80% of your fiscal year 1984 budget is dedicated to the direct support of the overseas volunteer operation. Could you give us the percentage for this activity for fiscal years 1980 through 1983?

Loret Ruppe: "Direct support" of our overseas operations includes the following major budget items:

- °Volunteer allowance
- °Volunteer training
- °Health and Medical Services
- °Volunteer travel, transportation and supplies
- °Foreign Affairs Administrative Support Services (FAAS) payments to the Department of State
- °Overseas Administrative Support

Then primary items excluded in determining direct support of overseas operations are the cost of recruiting Volunteers and the cost of maintaining our Headquarters operations (however, we do include our "special services" function as a direct cost).

The percentage of direct costs for the period 1980-1984 is as follows:

Direct Support of Overseas Operations	1980	1981	1982	1983	1984
	79.04%	76.31%	77.27%	78.53%	79.08%

As you can see, the percentage of our budget allocated toward direct support of overseas operations is gradually increasing every year. We are proud of both the upward direction of that curve and the 80% figure that we are now forecasting for 1984.

Senator Kasten: What has been the rate of Peace Corps volunteers terminating their tour early over the last two years, and how does this compare with previous years?

Loret Ruppe: The attrition rate of Peace Corps Volunteers scheduled to complete their two year commitment over the last two years is 33% and 27% respectively. Over the course of the last five years the average has remained steady at about 30%.

It is important to understand that these percentages reflect all those who did not complete their service, no matter at what point they in fact terminated. For example, an early terminee might leave after four months or thirteen months. It should be noted that there are a variety of reasons for early termination. Some Volunteers were required to leave for health reasons; others terminated early because of a sudden serious illness or death of a family member, or other family crisis. These figures also include early terminations from countries whose political situation creates serious security issues for Volunteers.

Senator Kasten: In your budget justifications under "Country Summaries" you carry dollar figures for host country contributions to the Peace Corps program. What form does that host country contribution usually take? Please give us several examples.

Loret Ruppe: Host Country Contributions (HCC's) are often "in-kind" contributions, e.g. the host country provides volunteer housing or supplies for volunteer projects. Cash HCC's can be used for anything that can be purchased with local currency - foreign Service National salaries, Volunteer living allowances, rents and utilities. The amount of the HCC is usually negotiated in advance, and the amount or kind of the contribution can be factored into the overall country budget.

For example in Gabon, host country contributions provide for staff housing, the cost of training sites and some in-service training for Volunteers and peer teachers. HCC's in Gabon also provide for supplies and materials for the extensive school construction projects. In Swaziland, in Southern Africa, HCC's pay for the cost of utilities for Peace Corps buildings as well as staff and Volunteer housing. In Sierre Leone, in West Africa, HCC's support three major projects, health, agriculture, and education. Specifically, funding here is used for training of Volunteers and project related costs.

Senator Kasten: You have not yet been in Haiti for even a year, but can you give us any idea of how the program is going in that country?

Loret Ruppe: We are delighted with the response and cooperation of the Haitian government in the initial stages of our program. The first group of 8 Peace Corps Volunteers travelled to Haiti on March 31, 1983, to begin an eight week training program. Three Peace Corps Volunteers will work in the area of agroforestry, two in fisheries, one in environmental protection, and two in vocational skills training.

We have every indication that the program will be a success.

QUESTIONS SUBMITTED BY SENATOR INOUYE

Senator Inouye: Why has there been a $500,000 reduction in the request for funding of the Peace Corps? With a $1.3 billion increase proposed for military assistance programs, please do not say that the reduction is due to budgetary austerity.

Loret Ruppe: The President's request level for the Peace Corps of $108.5 million in 1984 is one which I fully support. The 1984 level represents the largest request that this Administration has made for the Peace Corps. Given the overall economic and budgetary situation from which the country is now beginning to recover, I believe the Administration's request of $108.5 million, 11 per cent larger than the 1983 request, represents a resounding stamp of approval for the Peace Corps. This budget level is the result of a careful weigh of a careful weighing of the needs of the complex array of programs funded by the Federal Government. I cannot, of course, address the specifics of the military assistance program, but I am confident that the overall budget balance reflects all the needs and best interests of this country.

Senator Inouye: Please explain the involvement of Peace Corps volunteers in charcoal production. What effect does this have on problems of deforestation?

Loret Ruppe: Recently, Peace Corps has begun training Peace Corps Volunteers to work with traditional charcoal makers by introducing improved charcoal production techniques in response to requests from host countries where firewood is increasingly becoming a scarcity. The costs of firewood and charcoal are climbing throughout most of Asia, Africa and Latin America, while the farmland trees and scrubby woodlands of unfarmed areas are rapidly being depleted. Fortunately, trees are a renewable resource when properly managed. Therefore, the logical immediate response to the firewood shortage is to plant more trees in nurseries, on farms, along roads and throughout rural areas. The Peace Corps has been contributing to worldwide efforts at reforestation for some time now.

However, as a short-term interim solution, efforts are underway in a number of countries like Ghana, Senegal and Belize to improve the yield of traditional charcoal producers, thereby conserving what little firewood resources still exist. The focus of Peace Corps' efforts in this area has been on improving designs of traditional charcoal kilns so that they produce at least one-third more charcoal per batch, and introducing more efficient charcoal-burning stoves.

Senator Inouye: What do you mean by "sanitation systems?" Are you speaking of latrine construction?

Loret Ruppe: Sanitation systems in rural and outlying suburban settlement areas means latrine construction applying the ventilated improved pit (VIP) design. These systems utilize low cost materials (thatch, straw, cane, and lathing) and local labor for pit excavation and shelter construction. Small quantities of cement and steel re-inforcements, when available, are used in casting the slab or platform.

Senator Inouye: How does the Peace Corps, as a voluntary agency, address the problem of recurrent costs, both for personnel to replace the volunteer and for materials and equipment to sustain the results of volunteer projects?

Loret Ruppe: The philosophy of the Peace Corps is to place Volunteers in sites and projects which do not require a continued input of resources from outside, in terms of either Volunteers or supplies and materials. Our goal is to transfer sufficient skills and to use an appropriate level of technology so that, after the departure of the volunteer(s), the project is continued by host country nationals, using locally available skills, materials and resources.

Senator Inouye: In your prepared remarks you adumbrate a number of programs which furthered the goal of economic development and self-sustaining productive capacity. How was the increase in the Philippines income generation program measured?

Loret Ruppe: The new Philippines Five Year Development Plan stresses economic development, especially in the rural areas, in conjunction with agriculture. This has become a major focus in Peace Corps/Philippines' program. By realigning its efforts, the Peace Corps program has enhanced income generation activities through a variety of programs in agriculture, marketing and local resource management. This increase in income generation involvement throughout the program has enabled more Volunteers.to address the communities' economic development. Target groups include rural banks, cooperatives, farmer organizations, development staff of local governments, small scale business entrepreneurs and corollarily, the rural unemployed. The fifty-percent increase in the program reflects the rise in number of volunteers participating in income generation programs.

Senator Inouye: What percentage of Tonga's fish needs were met by locally caught fish prior to the work of the Peace Corps, and what was the percentage afterwards?

Loret Ruppe: We do not have data which reflects the percentage of Tonga's fish needs which were met by locally caught fish prior to and after the involvement of Peace Corps Volunteers in the fisheries extension project.

Available statistics do not show any reduction in tinned fish imports as a result of this project.

Fisheries extension services are still in an infant stage of development in Tonga but much progress has been made in developing a working, learning relationship between local fishermen and the Fisheries Department's extension officers over the past four years. This can be attributed primarily to the technical assistance provided by Peace Corps Volunteers and financial assistance provided by the Foundation of the Peoples of the South Pacific.

Little has been accomplished to date to improve the fish marketing infrastructure, but much has been done in order to make more fresh fish available in the Tongan market centers (e.g. introduction of new demonstration fishing boats and fishing techniques beyond the reef, introduction of icemaking facilities in regional locations, and the construction and availability of ice boxes suitable for use on traditional local fishing vessels). It is impossible to provide statistics on the amount of actual increase in fish production; however, observers at the local markets in Neiafu, Pangai and Nuku'alofa indicate that it is obvious that more fish is now available for sale than prior to 1978.

With more fish being caught and sold in the local market centers, one can assume without much doubt that more fresh fish is being eaten by Tongans. And with fresh fish being an excellent source of protein, the intake of protein by Tongans is thus increased. This has been and will continue to be a major source of protein for the Tongan people.

Senator Inouye: How many people have participated in the bank training program devised by Peace Corps volunteers in the Cook Islands?

Loret Ruppe: There has been one volunteer working in the project. As a result of his activity, 15 people have been taught in formal settings, 50 people have been provided a direct service, and about 500 people have been affected indirectly. Included in this was the training of 6 Development Bank staff and 2 outer island Bank representatives.

Senator Inouye: How much of your budget is expended on entertainment or representation? Was the amount provided for these purposes in fiscal year 1982 fully expended? Please provide a listing of all receptions, dinners or similar functions funded by your organization in fiscal year 1982 and in the first quarter of fiscal year 1983. In this listing, please provide the total cost associated with each function and a list of those attending.

Loret Ruppe: The Headquarters FY 1982 allocation for representation and entertainment expenses was $4,000, Of which $2,817 was expended. This amount (less than 1/100 of 1%) generally supports such external events as coffees and luncheons associated with congressional liaison activities and activities related to the Peace Corps Advisory Council. Last year, we hosted a breakfast for members of the Senate Foreign Relations Committee on October 6, 1981, attended by Senators Mattingly, Dodd, Symms, Mathias, Kasten, Baucus, and Randolph. (Cost: $36) We also invited staff members from the Senate Foreign Relations Committee (Subcommittees on East Asia and Pacific; and Africa) and the House Foreign Affairs Committee (Subcommittees on Africa; Asian and Pacific Affairs) to two (2) luncheons at Peace Corps headquarters. These luncheons featured regional dishes prepared by Peace Corps staff and served at the Peace Corps. The first luncheon, for congressional staff involved in Africa matters, was held January 18, 1982. The second luncheon, for selected staff of the Foreign Affairs Committees dealing with Near East/Asian/Pacific matters was held February 11, 1982 at a cost of $210.

In addition, $2,499 was expended for activities - including transportation in Washington, dinner, and related expenses - associated with the swearing-in of the Peace Corps Advisory council, composed of 30 Americans appointed by the President who advise the Peace Corps Director on policy issues. The swearing-in was conducted by Supreme Court Associate Justice Sandra Day O'Connor, and was attended by the Advisory Council (list attached) and Peace Corps executive staff.

Our 50 overseas posts are allocated a representation allowance of $100 per post. These funds, are usually expended in connection with such events as host country celebrations of the anniversary of the Peace Corps presence in that country, etc. Unfortunately, the records of these funds are not centrally maintained in Washington and would only be obtainable with difficulty. However, the $100 limitation (to be exceeded only with Headquarters permission) provides a scope of the small scale of these funds. We would, of course, be happy to provide you with the exact information should you further request it.

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Senator Inouye: What is the nature of support that the United Nations Volunteers program receives from Peace Corps? What is the Special Voluntary Fund of the United Nations Volunteers? What is the present U.S. contribution? During the past twelve years, how many Americans have served as United Nations Volunteers? Please describe the U.S. Government's programs for refugee assistance which utilize UN volunteers in Southeast Asia and Africa. Include the number of U.S. nationals serving as UN volunteers under this special program. Describe the application process by which a U.S. national applies and is selected as a UN volunteer.

Loret Ruppe: The Peace Corps supports the United Nations Volunteers (UNV) program in two distinct ways: by recruiting, screening and sponsoring U.S. citizen to become UNVs, and by contributing to the Special Voluntary Fund, a fund maintained by the program to provide sponsorship for volunteers from developing countries. Sponsorship of American UNVs involves Peace Corps' providing the volunteers "external costs:" travel and related expenses to and from the Volunteer's country-of-service, and a readjustment allowance on completion of service. The Special Voluntary Fund, which pays the external costs for developing country volunteers, consists of contributions from UN member governments and, occasionally, private citizens. the United States, through the Peace Corps, has been the largest contributor to the Fund; Peace Corps' contribution in FY 83 will be $150,000.

In the twelve years since the first American UN Volunteer arrived in Yemen, Peace Corps has sponsored 225 American Volunteers, 126 of them, or 56%, since 1980. American UNVs have in the past three years represented about 8% of the total numbers of UNVs in service at a given time, and approximately 30% of the volunteers from industrialized countries.

Since 1980, when Peace Corps entered into an agreement with UNV and the United Nations High Commissioner for Refugees (UNHCR) to provide American UN Volunteers to UNHCR refugee assistance programs, Peace Corps has sponsored approximately 60 Americans for special one-year assignments to these programs. Both external and internal costs for most American UNVs working in refugee assistance are paid by the U.S. Government, through reimbursement to Peace Corps and UNV by the Department of State, Bureau of Refugee Programs. The programs in Southeast Asia (Malaysia and the Philippines) in which UNVs provide English language and teacher training and cultural orientation to refugees bound for settlement in the United States, are presently being phased out; at present there remain only three American Volunteers in the program in Malaysia and four in the Philippines. UNV refugee assistance assignments in Somalia include commodity monitors and UNHCR field program assistants; UNV is still recruiting for a few positions. There are six American UNVs working in the UNHCR program in Somalia at the present time, and two or three additional candidates expected to join them shortly.

UNV/Geneva and Peace Corps/Washington have developed the following procedures for American UNV applicants: U.S. citizens applying to the United Nations Volunteer Programs complete both an UNV application form and an application to the Peace Corps, noting their interest in UNV. Peace Corps' local recruiting offices and regional service centers complete the usual Peace Corps selection process, including an interview, collection of references, etc., to determine whether the applicant meets Peace Corps' and UNV's basic assignment criteria. Once approved by Peace Corps, the candidate's UNV application and supporting documents are forwarded to UNV Headquarters in Geneva, with notification that Peace Corps will sponsor him or her if an invitation to UNV is forthcoming.

The UNV Headquarters is responsible for all placement of UNVs; applicants considered suitable for UNV postings are placed on a roster of available candidates in Geneva. Candidates for specific volunteer assignments are selected from the roster for submission to the field. Only after approval from host government and project officials is an applicant invited to become a UN Volunteer.

INTER-AMERICAN FOUNDATION

STATEMENT OF PETER D. BELL, PRESIDENT, INTER-AMERICAN FOUNDATION

ACCOMPANIED BY:

LEON M. PARKER, EXECUTIVE OFFICER, INTER-AMERICAN FOUNDATION

DOROTHY B. BURRUSS, BUDGET AND MANAGEMENT INFORMATION OFFICER, INTER-AMERICAN FOUNDATION

PREPARED STATEMENT

Senator KASTEN. Our next witness is Peter Bell, president of the Inter-American Foundation. As I am sure you heard me say to Ms. Ruppe, we would appreciate it if you could summarize your statement. As you know, your full written statement will be inserted in the hearing record.

[The statement follows:]

PREPARED STATEMENT OF PETER D. BELL
PRESIDENT
INTER-AMERICAN FOUNDATION

Mr. Chairman,

The Inter-American Foundation was created by Congress to support the self-help efforts of poor people in Latin America and the Caribbean. Last year, for the first time in the post-World War II period, the economy of the region did not grow. In fact, per capita income fell by three percent for the region as a whole. The severe economic climate was especially harsh for those people with whom the Foundation works, such as Creole-speaking peasants in Haiti, Aymara Indians in highland Bolivia, or slum dwellers in the sprawling urban settlements of Peru.

The Inter-American Foundation makes small grants to local, private organizations in which poor people are trying to improve their social and economic situations. We support rural organizations to improve agricultural production and marketing; small businesses in urban areas to create new sources of income and employment; education programs to train the unemployed and underemployed; and initiatives by poor communities to provide access to such basic goods and services as food, housing, and health care. Since beginning operations in 1971, the Foundation has made some 1,400 grants for $154 million throughout Latin America and the Caribbean.

In our enabling legislation, Congress stated that the Inter-American Foundation should seek to strengthen the bonds of friendship and understanding among the peoples of the hemisphere, support the self-help efforts of poor people, assist their participation in development, and encourage the growth of democratic institutions. To pursue these purposes, Congress established the Foundation as an autonomous, semiprivate corporation so that our program would not be affected by fluctuations in U.S. foreign policy. We were specifically instructed by Congress to work on a people-to-people basis.

To assure the Foundation's independence, Congress vested our management in a seven-member, Presidentially-appointed board of directors, a majority of whom must come from the private sector. In January, Victor Blanco, president of Multiple Medical Management in Los Angeles, became the third chairman of the board, succeeding Peter Jones, senior vice president of Levi Strauss & Company. In December the President nominated Richard Rubottom to the board. Dr. Rubottom, a former assistant secretary of State for inter-American affairs and ambassador to Argentina under President Eisenhower, was not confirmed before Congress adjourned, but we expect that he will be renominated shortly. As you will recall, our first chairman was Augustin S. Hart, Jr., former vice chairman of Quaker Oats, who is now head of our advisory council.

The Foundation's success in Latin America and the Caribbean is due in large measure to our autonomous, semiprivate character. Our independence from short-term changes in foreign policy has been supported, as Congress intended, by the State Department and each succeeding Administration throughout the Foundation's history. Our autonomy, in turn, has allowed for the continuity in the Foundation's board and staff that has been essential to the steadiness of our commitment in Latin America and to the building of relations of trust with private development groups in the region.

The Foundation is proud of its accomplishments:

First, we have demonstrated that poor people will contribute savings, labor, and ingenuity to their own development projects. The Foundation has shown that we can reach such people and provide them with small but critical support to supplement their own resources.

Second, we have kept our administrative costs low, and red tape to a minimum. We try to respond to proposals with either a "yes" or a "no" within ninety days of receiving them.

Third, the Foundation has built relations of mutual respect and trust within Latin America and the Caribbean. We work with nongovernmental organizations in a variety of countries. Our relations with these private development groups enable us to maintain our programs through changes in government.

Fourth, the Foundation is evaluating its work and sharing the results with other development organizations. We have increased our efforts to spread the word about our experience in grassroots development. In recent weeks, the journal Assignment Children, published by UNICEF, reprinted a report on the lessons of that experience. The current issue of the magazine Americas, published by the Organization of American States, includes an article that commends our grants program and our evaluation, dissemination, and coordination activities.

For Fiscal Year 1984, the Foundation is requesting an appropriation of $10.7 million. Our goals next year will be to maintain our high-quality grant-making, to continue strengthening our efforts to evaluate our work, and to find increased opportunities for coordinating our work with other agencies.

Mr. Chairman, as I look back on the Foundation to date, I think that we have a right to a certain sense of accomplishment. Yet, perhaps our greatest accomplishment is understanding the limits of what we can know and do; our greatest satisfaction is in supporting the work of local groups in Latin America and the Caribbean. The projects belong not to the Foundation but to the groups who design and implement them. The conventional language of funding agencies aside, the projects are not "ours" but "theirs"; it is not the groups but we who provide the counterpart funding. Because these groups must literally live with the projects, they deserve our deference. For their commitment to a better life for their children, their neighbors, and themselves, they also merit our respect. Throughout Latin America and the Caribbean, they are taking risks, making sacrifices, and showing what can be accomplished by self-help efforts at the grassroots.

Thank you, Mr. Chairman. I would be happy to answer any questions.

IAF ACTIVITIES

Senator KASTEN. We are happy to have you with us today. We enjoy working with you, and you may proceed with your statement.

Mr. BELL. Thank you very much. I would like to introduce Leon Parker, our executive officer, and Dorothy Burruss, our budget and informations systems officer at the Foundation.

At the outset, I do want to say how much we have appreciated your support and the support of this committee, not only with regard to appropriations, but also the support that you and the committee have given us in obtaining access to the Social Progress Trust Fund moneys held by the Inter-American Development Bank.

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AUTONOMY

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ACCOMPLISHMENTS

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Thank you, Mr. Chairman. I would be happy to answer any questions.

BOARD OF DIRECTORS

Senator KASTEN. Thank you. I did not follow exactly in terms of the personnel, but last year you said that the Board was not yet completed. The President needed to make one more nomination. Now if that nomination was made and you believe it is going to be resubmmitted now, is that it, or if that one nomination were filled, would all of the positions be filled on the Board?

Mr. BELL. All seven positions on the Board are currently filled because under our legislation, a member of the Board continues to serve after his term has expired if his successor has not been nominated by the President and confirmed by the Senate. The term of one private member of the Board expired on the 20th of September, and toward the end of the 97th Congress, President Reagan nominated Richard Rubottom to fill that position. However——

Senator KASTEN. We just ran out of time here?

Mr. BELL. You ran out of time in the Senate. That is correct. So that nomination will need to be resubmitted to the Senate.

Senator KASTEN. It is going to be resubmitted?

Mr. **Bell**. We assume that that is the case, yes, sir, although, of course, that is a decision which must be made in the White House.

CARIBBEAN BASIN

Senator **Kasten**. In view of the recent and current emphasis on the Caribbean Basin with the CBI and other efforts, has your organization increased your activities in the Caribbean and, if so, what kinds of projects or which countries have you been working with or concentrating on?

Mr. **Bell**. Mr. Chairman, we received $2 million under the legislation that was passed last year for the Caribbean Basin Initiative. That $2 million is very important to us. Without it, we would have had to reduce the activities of the Foundation in the Caribbean Basin. With the funds we are able to at least sustain the level of activity that we had last year and perhaps increase it some.

The work that the Foundation has been doing over the past 12 years in the Caribbean is very much in keeping with the spirit of the Caribbean Basin Initiative. We work with organizations of small farmers and with very small enterprises, helping them from the bottom up to develop their markets, increase their productivity, and improve their organization.

The Caribbean Basin Initiative funding has helped us, but our work has really been able to continue on an even keel there because it contributes to development in the Caribbean Basin.

Senator **Kasten**. Have you made any decisions to go into any new countries or, for any reason, to come out of any countries and, if so, why?

Mr. **Bell**. If by the Caribbean Basin you mean all of the islands of the Caribbean——

Senator **Kasten**. I was thinking overall. I was trying to get a sense—are you doing more projects in the Caribbean now?

Mr. **Bell**. There are some countries in which we are doing more, in particular Costa Rica and the Dominican Republic. Over the last year we had a substantial increase in the level of activity in Costa Rica; over the last 2 years, a very substantial increase in the activity in the Dominican Republic.

We find it more difficult to operate in those countries of Central America where there is violence, especially in the countryside.

Senator **Kasten**. Are you in El Salvador now at all?

Mr. **Bell**. We are not. Our Board of Directors and the officers of the Foundation felt we cannot send our staff into the countryside in El Salvador without putting their personal safety at risk.

NICARAGUA

Senator **Kasten**. What about Nicaragua? Were you there in previous years, are you still there, or not?

Mr. **Bell**. Over the years, we have had a stream of activity in Nicaragua. Interestingly, the principal grantee of the Foundation in Nicaragua now is the same organization that was our principal grantee before the insurrection there 3 years ago. It is an organization with the acronym FUNDE. It is a national development organization supported by local businessmen in Nicaragua. We recently made another grant to them.

They, in turn, support small enterprises marketwomen, and small rural ventures in Nicaragua. They do very important work there.

Senator **Kasten**. We were funding, up until last year, some private sector groups down there too. I do not know which ones they are.

Mr. **Bell**. At one point the Agency for International Development did come along and make a substantial grant, far larger than we could have made, to the same organization.

SOUTH AMERICA

Senator **Kasten**. In terms of South America, is there any emphasis, or are there any significant country changes that you would like to make us aware of in terms of directions in which you may be working?

Mr. **Bell**. There has been. The principal countries where we are working in South America are Peru, Colombia, Chile, Mexico, and Bolivia and, to a lesser degree, Uruguay. Five years ago the Foundation discontinued its activities in Brazil. Over recent months we have been in discussions with people in the private sector and the Government of Brazil about the possibility of the Foundation reentering the country.

If we did so, it would be at a rather modest level initially.

BOLIVIA

Senator **Kasten**. You mentioned Bolivia. You do have programs in Bolivia, is that right?

Mr. **Bell**. Yes; we have an active program there.

Senator **Kasten**. If you have an active program, we can assume that you have freedom to move in the country and to think of your volunteers and groups as being safe, as opposed to, you mentioned, in El Salvador they could not be. What kind of freedom of movement do you have in Bolivia?

Mr. **Bell**. As you know, there seems to be a change of government more than once a year in Bolivia. Nevertheless, our representative there has had freedom of movement during all of this instability.

We continued there, for example, after the violent coup in 1980 because our activities were not with the Government but with private organizations. The Government changed again recently, and we continue to work with the same groups. To date, we have had freedom of movement in Bolivia.

The automony of the Foundation has been respected by successive governments in Bolivia, even though the coloration of those governments has varied a great deal. That is one of the strengths of the Foundation.

Senator **Kasten**. Yes, yes. That is interesting.

SUBMITTED QUESTIONS

We may have additional questions for you from the committee. I haven't any more at this time, but let me thank you for your testimony, and we look forward to working with you. We will submit questions to you to be answered in writing.

That concludes today's hearing. The record will remain open for 3 weeks, during which time members will have an opportunity to submit questions.

[The following questions were not asked at the hearing, but were submitted to the Foundation for response, subsequent to the hearing:]

QUESTIONS SUBMITTED BY SENATOR KASTEN

SENATOR KASTEN: This Committee is responsible for less than one-half of your annual budget. The I.A.F. also receives funding from the Social Progress Trust Fund which is administered by the Inter-American Development Bank. What is the I.A.F.'s annual Social Progress Trust Fund budget? How are those funds administered?

PETER BELL: The Inter-American Foundation currently has access to $48 million for a three-year period ending December 31, 1985. If past experience is any guide, however, the Foundation will be able to spend only approximately $10 to $12 million of these funds each year because of various restrictions on their use. SPTF funds cannot be used for IAF administrative expenses. They are allocated by country. In some countries, the SPTF allocation substantially exceeds our needs; in others the amounts are insufficient. And there are several countries with active IAF programs in which no SPTF funds are available. Moreover, SPTF funds can only be used for projects in education, housing, sanitation and health, land use, financial institutions, and technical assistance. For example, they cannot be used for urban-based small business projects. In FY 1981, grants out of SPTF funds totalled $10.9 million; in FY 1982, they totalled $10.5 million.

SENATOR KASTEN: When did the Foundation begin receiving funds under the Social Progress Trust Fund agreements? I understand that the SPTF is comprised of repayments of loans made under the Alliance for Progress by the United States. What is the status of that account? How long will the I.A.F. continue receiving these funds?

PETER BELL: The Foundation first obtained access to the resources of the Social Progress Trust Fund in 1974. We have negotiated four three-year agreements providing us with continued access to the Fund. The current agreement is for calendar years 1983 through 1985. The first three agreements enabled the Foundation to make grants totalling $83,425,000.

We were recently advised by officials of the Inter-American Development Bank that reflows into the SPTF would begin declining during the last year of our current agreement and that significantly lower amounts should be anticipated for any future agreement between the Foundation and the IDB.

SPTF monies, which are available in local currencies, are allocated by country. The funds available for the IAF's use are dependent upon the amounts which each country repays into the Fund.

SENATOR KASTEN: This Committee, as you know, has carefully monitored the development and funding of the I.A.F. for more than a decade. The Committee has been quite jealous in its view of the I.A.F. as its creation, and has gone to bat on several occasions to make sure that it is adequately funded. As the Social Progress Trust Fund runs out, we will have to consider ways in which to pick up the slack. Obviously we would want to make sure that I.A.F.'s overall budget remains fairly constant. What are your plans in the future as the SPTF runs out?

PETER BELL: Over the years the Foundation has received strong support both from the Congress and the Executive Branch to help maintain and increase our level of activity in Latin America. We believe our problem related to the decline in availability in SPTF monies will be resolved if the Administration and our authorizing and appropriating Committees in Congress are kept apprised of our SPTF funding situation.

As the loan reflows begin to diminish, the Inter-American Development Bank, which administers this fund, will inform us of the balances remaining for each country from which we may be able to draw. We would report to Congress and OMB about our funding situation and the increased amounts of appropriated funds we will need to compensate for the dwindling SPTF monies and to maintain a suitable level of grant activity.

SENATOR KASTEN: In dollar terms, what are the three countries which have the highest level of activity by I.A.F.?

PETER BELL: The IAF has made grants in some 35 countries in its 12 years of operation. The three countries where the Foundation's support has been the largest are Chile, Peru and Mexico.

QUESTIONS SUBMITTED BY SENATOR INOUYE

SENATOR INOUYE: Mr. Bell. In Fiscal Year 1981, the Congress appropriated $15,826,000 in support of the Inter-American Foundation. Your budget request for Fiscal Year 1984 is $5,121,000 less than was appropriated in Fiscal Year 1981. Does this reduction reflect a lack of interest on the part of the Administration?

PETER BELL: We have no reason to believe that there is a lack of interest on the part of the Administration.

SENATOR INOUYE: How would this reduction be accomplished? Would program activities be reduced?

PETER BELL: The reduction from $15,826,000 to $10,705,000 would result in a significant cutback in program activity conducted with appropriated funds.

In FY 1981, we used $3,335,000 for operating expenses and $11,805,000 for appropriated program activities. In FY 1984 we are projecting the use of $4,610,000 for operating expenses, leaving $6,095,000 for appropriated program funding. This represents a 48% reduction in appropriated funds available for program since 1981. Wherever possible, we will use SPTF funds, but our grant making will decline from approximately 300 grants per year to about 220. Moreover, the lack of flexibility in the use of SPTF funds leaves us with a significant reduction in our ability to respond to proposals in certain countries and program areas. We will, for example, have to reduce sharply our funding in Caribbean countries because SPTF funds are not available in most of those countries. We will also have to reduce our support for income-generating and employment projects in urban areas and to cut back our funding of research and evaluations.

SENATOR INOUYE: In constant dollars, what would the reduction from the FY 1981 level amount to?

PETER BELL: In 1981 dollars, the FY 1984 level of $10,705,000 would equal approximately $9,099,000, or a 43% reduction from our FY 1981 appropriation of $15,826,000.

SENATOR INOUYE: Mr. Bell. The Reagan Administration has announced that the Caribbean Basin Initiative is a keystone of American foreign policy. Large increases in economic assistance have been proposed for the region.

Have any of the funds appropriated under the CBI been made available to the Inter-American Foundation?

PETER BELL: The Foundation received $2,000,000 in FY 1983 under the CBI. The funds are being used for the Foundation's grant-making program in the Caribbean. The funds are especially valuable because of the limited availablility of SPTF funds in most of the islands of the region.

SENATOR INOUYE: Since this Administration has proposed increases in overall assistance to Latin America and the Caribbean, while reducing funding requests for the Inter-American Foundation, is it reasonable to assume that the Reagan Administration would like to phase out the Inter-American Foundation?

PETER BELL: We are not aware of any intention to phase out the Foundation.

SENATOR INOUYE: Mr. Bell. In which countries is the Inter-American Foundation currently supporting activities?

PETER BELL: The Foundation is currently supporting activities in 35 countries: Anguilla, Antigua, Argentina, Bahamas, Barbados, Belize, Bolivia, Chile, Colombia, Costa Rica, Dominica, Dominican Republic, Ecuador, Grenada, Guatemala, Guyana, Haiti, Honduras, Jamaica, Mexico, Panama, Paraguay, Peru, Montserrat, Netherland Antilles, Nicaragua, St. Kitts-Nevis, St. Lucia, St. Vincent, Suriname, Trinidad and Tobago, Uruguay and Venezuela.

SENATOR INOUYE: How would this listing differ from a similar list had one been prepared in 1980?

PETER BELL: In 1980, the Foundation had active grants in each of the countries listed above except Anguilla, Netherland Antilles, St. Lucia and Suriname. In addition, we had active grants in El Salvador.

SENATOR INOUYE: Please explain, on an individual country basis, the underlying reasons for the differences between these two lists.

PETER BELL: Anguilla, Netherland Antilles, St. Lucia and Suriname are all located in the Caribbean. It has only been in the past few years that we have allocated sufficient staff resources to cover all of the countries in the region. Concerns about safety of the Foundation's Field Representatives has caused our curtailment of activity in El Salvador.

SENATOR INOUYE: Mr. Bell. How much of your budget is used for operating expenses of the Inter-American Foundation?

PETER BELL: In FY 1982, operating expenses accounted for 14 percent of our total budget.

SENATOR INOUYE: As your program has declined, has the size of your staff also diminished?

PETER BELL: The Foundation's FTE personnel ceiling in FY 1980 was 64. This was reduced in FY 1981 to 63, and further reduced in FY 1982 to 62. However, the Office of Management and Budget raised the FTE ceiling in FY 1983 to 63 and in FY 1984 to 65.

SENATOR INOUYE: What was the size of the Foundation's staff (Professional and Clerical) in Fiscal Year 1981? What is it now?

PETER BELL: The Foundation's staff numbered 64 at the end of FY 1981. We now have 40 professional and 20 support staff on board and are in the process of filling four vacancies, three professional and one support.

SENATOR INOUYE: How much of your budget is expended on entertainment or representation?

PETER BELL: The Foundation's authorizing legislation allows for the use of up to $10,000 for representation expenses. In FY 1982, $3,000 was budgeted for this purpose.

SENATOR INOUYE: Was the amount provided for these purposes in Fiscal Year 1982 fully expended?

PETER BELL: No. In FY 1982 only $2,000 of the $3,000 budgeted was used.

SENATOR INOUYE: Please provide a listing of all receptions, dinners, or similar functions funded by the Inter-American Foundation in Fiscal Year 1982 and in the first quarter of Fiscal Year 1983. In this listing, please provide the total cost associated with each function and a list of those attending.

PETER BELL: The Foundation has not funded any receptions or dinners in FY 1982 or the first quarter of FY 1983.

SUBCOMMITTEE RECESS

The subcommittee stands in recess until 10 a.m. tomorrow, at which time we will receive testimony from Peter McPherson.

[Whereupon, at 2:45 p.m., Wednesday, March 2, the subcommittee was recessed, to reconvene at 10 a.m., Thursday, March 3, 1983.]

FOREIGN ASSISTANCE AND RELATED PROGRAMS APPROPRIATIONS FOR FISCAL YEAR 1984

THURSDAY, MARCH 3, 1983

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, D.C.

The subcommittee met at 10 a.m., in room S-126, the Capitol, Hon. Robert W. Kasten, Jr. (chairman), presiding.

Members present: Senators Kasten and D'Amato.

AGENCY FOR INTERNATIONAL DEVELOPMENT

STATEMENT OF M. PETER McPHERSON, ACTING DIRECTOR, INTERNATIONAL DEVELOPMENT COOPERATION AGENCY, AND ADMINISTRATOR, AGENCY FOR INTERNATIONAL DEVELOPMENT

ACCOMPANIED BY:

FRANCES RUDDY, ASSISTANT ADMINISTRATOR FOR AFRICA

CHARLES W. GREENLEAF, JR., ASSISTANT ADMINISTRATOR FOR ASIA

OTTO J. REICH, ASSISTANT ADMINISTRATOR FOR LATIN AMERICA AND THE CARIBBEAN

W. ANTOINETTE FORD, ASSISTANT ADMINISTRATOR FOR NEAR EAST

PREPARED STATEMENTS FROM GAO AND AID IG

Senator KASTEN. The subcommittee will come to order.

Today we continue our hearings with the Administrator of the Agency for International Development [AID] Peter McPherson.

This morning's hearing will concentrate on the regional bureaus. This afternoon we will cover the centrally funded and other activities of AID. In the beginning of this morning's record I will insert a statement from the GAO, and when we receive it, we will insert at this point in the record the requested statement from the Inspector General of AID.

Members will have an opportunity to submit questions based on the report. Because of the accelerated time schedule this year, it was not possible to have oral testimony from those two offices.

[The statements follow:]

PREPARED STATEMENT FROM U.S. GENERAL ACCOUNTING OFFICE

INTERNATIONAL DIVISION

Mr. Chairman and Members of the Subcommittee:

We are pleased to provide you with a review of our recently completed and ongoing work on U.S. foreign assistance programs both in the development assistance and military assistance areas.

BILATERAL DEVELOPMENT ASSISTANCE

This section provides our observations on assistance management issues, private sector assistance, agricultural development, health and refugee programs, and the Inter-American Foundation. We continue to address those areas where we believe management and administrative improvements can be made.

Management of assistance

Contracting is a major means used by AID to package and deliver economic assistance. AID-direct and host country contracting in fiscal year 1981 was estimated at $1.3 billion. Host country contracting, representing about $1 billion a year, was the subject of our June 1982 report to the AID Administrator. We concluded that AID did not have adequate information on the number and value of host country contracts (1) to keep the Congress informed; (2) to give AID managers, auditors and project officers the information needed for oversight of contract costs and contractor performance; (3) to assist AID in evaluating the success of its host country contracting policy; and (4) to respond to management weaknesses reported by AID's Inspector General and confirmed by us, including the need for more audit coverage and the lack of internal controls for the payment of goods and services.

In response to our conclusions and recommendations for the establishment and maintenance of a data bank, the Agency has taken steps to inventory outstanding host country contracts and systematically report pertinent information on all new contracts of $100,000 or more. Building on past work, we have begun a survey of AID contracting activities, focusing on AID's direct contracts. Early indications suggest that a number of previously reported deficiencies--for example, in procurement planning, implementation delays and contractor performance--continue to exist. These weaknesses often lead to extensive contract modifications and amendments which increase contract costs. We are addressing questions such as:

--are procurement plans adequate to allow efficient contracting?

--are statements of work sufficient for contractors to know what to do and for AID to know what to expect from the contractors?

--are contractor and project officer status reports adequate to monitor progress and contractor performance?

In a report to the AID Administrator on January 3, 1983, we reviewed and reported on the Agency's efforts to categorize troubled projects and identify those project funds that should be deobligated. We concluded that criteria, guidance, and procedures for actually identifying, monitoring, and reporting on potential problem projects and deobligations varies among bureaus and may change each year. Inconsistent procedures and reporting raises questions as to the comparability of data from year to year and the nature and extent of appropriate remedial actions. We recommended that the AID Administrator establish more definitive policy guidelines and procedures for all bureaus and missions to use in identifying and reporting potential problem projects and in reviewing whether project funds should be deobligated. AID officials generally agreed with our conclusions and recommendations, but believed that project redesign is the preferred remedial action for problem projects and that deobligation, if considered, requires delicate and/or complex discussions between U.S. and host-country officials.

A report to be issued soon on donor approaches to development assistance compares the approach of the United States with those of five major Western nations. Three management issues selected for comparative analysis among the donors' foreign aid programs include (1) the donor's organizational structure, (2) the donor's provision of different types of aid, and (3) the donor's administrative procedures and financial controls.

While this report will contain no recommendations, it will discuss the implications of applying the foreign aid management approaches used by the other donors into the AID program; in particular, the dilemmas and tradeoffs that would accompany such an action.

Our in-process work also includes a review of commodity import programs. Commodity import programs provide dollar exchange to developing countries experiencing serious balance-of-payments problems. Work on our review is being done in Washington and in five countries overseas, with emphasis on more efficient and economic administration and managment of the programs. At about the halfway point in the assignment, we have indications that the procurement planning and delivery of commodities may need to be improved.

Private sector assistance

AID's emphasis on promoting private-sector involvement in development has resulted in the establishment of the Bureau for Private Enterprise to mobilize greater participation of the U.S. private sector in LDC development and to promote and encourage the expansion of local, indigenous private-sector activities. AID's other Bureaus and its overseas missions are also seeking initiatives which would increase private-sector involvement in the development process. While it is too early to pass judgment on these initiatives, we have, over the past year, focused on evaluating established AID programs with a private-sector emphasis.

In May 1982, we issued a report on the relationship between Private Voluntary Agencies (PVOs) and AID, as well as, AID's management of the PVO program. We found that the PVO's financial dependency on AID was not healthy because the PVOs could lose their independence and recommended that PVO contributions to grant-funded programs should be increased with funding priority given to PVOs which match AID support.

We issued a report on February 14, 1983, on our review of the U.S. response to the increased incidence of balance-of-payments problems in developing countries. We reviewed AID's program in three Latin American countries which are experiencing different stages of balance-of-payments problems.

We found that, while balance-of-payments problems can have an adverse effect on development assistance projects, AID finds it difficult to reorient its development assistance program to the evolving balance-of-payments problems. It also appears some AID missions may hesitate to propose action when they identify a serious deterioration in a country's balance-of-payments situation because of the difficulties the missions perceive in adjusting a development assistance program and justifying balance-of-payments tools such as the Economic Support Fund. We concluded that AID program planners and missions may lack guidance as to which countries and at what point the United States will consider assistance in deteriorating balance-of-payments situations. Acccordingly, we recommended that the Administrator, AID:

--direct AID missions to develop an action plan when they determine that a country's balance-of payments situation has affected AID's ongoing development assistance effort, for AID to consider, taking into account all the factors which restrict the Agency's role. The plan could include an assessment of whether AID's ongoing projects continue to be appropriate, how they relate to other donor activities, whether the country is following appropriate economic policies, and an estimate of the country's resource needs.

We recently issued a report on our review of AID's efforts to promote private-sector development in Egypt. AID has authorized close to $400 million for Egyptian private-sector expansion since 1976. With the United States' current emphasis on encouraging private-sector participation in the development process, the experiences gained from the Egyptian program could be useful to AID as it plans and programs future projects in the private-sector area. These lessons learned included the need to channel finanical assistance for private-sector enterprises through intermediary credit institutions, to use existing organizations to implement projects as an alternative to the more time consuming process of creating new institutions, and to identify in project agreements the participating parties' monitoring and implementing responsibilities.

Agricultural development

Deforestation is one of the critical problems facing developing countries in their efforts to solve agricultural needs and environmental concerns. In September 1982, our report and testimony for a joint hearing of the House Foreign Affairs and Science and Technology Committees pointed out that developing countries were not making the necessary financial and political commitments to (1) deter the environmental problems brought on by the destruction of their forests or (2) sustain the assistance provided by AID and multilateral development banks and other international organizations. In addition, assistance recipients were finding it difficult to implement and manage forestry projects.

We recommended that AID support forestry-related activities that countries are capable of carrying out. In cases where host government political and financial commitment is weak or nonexistent, we suggested that AID work to engender more positive commitment to deforestation problems. We recommended that AID adjust projects to developing country capabilities. This will necessitate a willingness on the part of AID to plan fewer activities and accept the need for possible successive projects to help satisfy the longer-term forestry assistance requirements of developing countries. We also recommended that AID and other donors focus increased attention on strategies to slow the destruction of forests caused primarily by subsistence farmers.

AID generally agreed with our recommendations, noting the need for longer timeframes to plan, carry out and sustain forestry and related natural resource projects, and recognizing that developing countries should not be saddled with more forestry assistance than they can use. On this score, our report points out that AID should tailor its forestry assistance to what the developing countries can reasonably be expected to implement during the life of the project.

AID's agricultural assistance programs have traditionally emphasized efforts to increase food production in developing countries. However, food worth billions of dollars is lost annually due to inefficiencies in storage, distribution, and marketing systems. Our June 1982 report on AID's food conservation programs showed that the Agency needs to give greater attention to the problem of postharvest food losses by:

--changing its agricultural policy to recognize food production and food conservation as complementing rather than competing functions;

--requiring the overseas missions to address postharvest problems in their development strategies or agricultural sector assessments;

--providing guidance to its missions in designing loss-reduction projects, including setting goals that are more subject to verification; and

--developing a postharvest research strategy, including more specific guidance and criteria for existing university cooperative agreements.

In addition to these recommendations, our report addressed the need for better project management in existing projects. In Senegal, AID contributed $4.9 million toward the $11 million cost of 23 government-controlled grain storage facilities. Yet, these facilities largely had been unused and their potential use remains uncertain because of government financial and management problems. In line with our recommendations, AID has changed its agricultural assistance policy to better recognize the complementary nature of food production and food loss reduction measures.

Another important area of agricultural assistance deals with research. In a February 1982 report to the AID Administrator, we identified ways in which the Agency can exercise better control over the use of its research funds. We identified the need for a research strategy and classification system, the need to place greater attention on research relevance and use, and the need for more agriculturally trained staff members. AID told us they were addressing these needs through a number of mechanisms, including a research task force for defining research and sector councils for reviewing research activities.

In one of our ongoing assignments, we are exploring the seriousness of operation and maintenance problems that affect the sustainability of U.S.-financed irrigation systems in developing countries. Irrigation systems, costing billions of dollars invested directly through AID and indirectly through the multilateral banks, are affected by poor operation and maintenance practices. Operation and maintenance problems grow and become even more complex because of inflationary effects on recurring costs, the magnitude of new projects continually being encouraged by recipients and donors, and the number of non-revenue generating projects being undertaken.

Health and refugee programs

Since the early 1950s the United States has contributed nearly $1 billion to combat malaria. The World Health Organization recently estimated that 214 million people were infected with malaria at the time of its study. We reported that externally funded malaria control programs in countries with, among other constraints, inadequate national commitment or resources for fighting the disease, do not usually have continued progress. Among the recommendations for better project management was one that AID, in designing malaria-control projects, more fully address the constraints that hamper successful anti-malaria activities in order to prevent the commitment of scarce foreign assistance resources to projects which offer little hope of sustained progress. In response to this report, AID agreed to convene a committee to study the Agency guidelines for malaria control programs. The revised guidelines are expected to include new criteria for anti-malaria program support.

We continued in 1982 to review the U.S. direct assistance to refugee programs as well as Department of State and AID management responsibilities to coordinate the U.S. contributions to refugee activities of various international organizations. Our December 1982 report on U.S. and international programs to assist African refugees contained recommendations directed to State and AID to improve the accountability of U.S. funds provided the U.N. High Commissioner for Refugees (UNHCR) for the care and protection of refugees. The United States provides one-third of the total UNHCR budget for Africa. In 1981, about $47.4 million of the U.S. contributions were for unrestricted

UNHCR uses--that is, the U.S. funds were not earmarked for use in specific projects, programs, or African countries.

We expressed concern in our report that, due to UNHCR's lack of accountability for unrestricted funds, the State Department was not able to assess the effectiveness of the use in Africa of the large amounts of U.S. contributions. In commenting on the report, UNHCR stated its awareness of needed accountability for donor contributions and cited efforts underway to improve fund control and the flow of project information into periodic performance and financial reports to be available to UNHCR management as well as to donors.

The Inter-American Foundation

In a July 1982 report, we discuss the experiences of the Inter-American Foundation (IAF) in providing aid to Latin America. Because IAF emphasizes support of experimental, innovative projects, dissemination of its experiences, inside and outside of the organization, is a key factor to improving the effectiveness of its own program and providing the maximum benefits possible from its development effort. We found, however, that dissemination efforts have been generally irregular and limited. To its credit, IAF has recognized this and recent improvements have been made.

In our report, we also noted that, although a number of IAF projects reviewed had met their objectives, some were having significant problems doing so. We concluded that, if monitoring efforts were more supportive of grantee efforts, these problems could be overcome. In line with these basic observations and conclusions, we made specific recommendations for improved IAF project and staff performance.

The Foundation agreed with our findings and recommendations, and we have confirmed that measures have been implemented to correct the deficiencies reported.

MILITARY ASSISTANCE

Our work on the U.S. security assistance program continues to focus on specific aspects of the program and also on selected countries. We would like to discuss some results from our more recent, or soon forthcoming, reports.

Financing military sales

In financing Foreign Military Sales (FMS), the United States has shifted from an on-budget grant and low-interest direct loan program to an off-budget high-interest loan program. Our January 1983 report on the "Unrealistic Use Of Loans To Support Foreign Military Sales" pointed out that each year, large FMS loan programs are being provided for countries which may not be able to repay these loans. Some countries are accumulating large debts which are just starting to come due now that the grace periods for principal repayments are lapsing. Meanwhile, the Guaranty Reserve Fund used to guarantee these off-budget loans, financed through the Federal Financing Bank, is undercapitalized in relation to the risks undertaken. Thus, a future Congress may need to appropriate billions of dollars to cover any shortage of funds.

The need to possibly reschedule billions of dollars of loans will have political, economic, and foreign policy repercussions for the United States as funds required to replenish the Guaranty Reserve Fund are tied to future budgets. We recommended that: FMS financing be put on budget; financing programs be tailored to the countries' ability to repay their loans; and funding levels of the Guaranty Reserve Fund be commensurate with the size and nature of its contingent liability.

The financing pipeline has also been further extended for a few countries--Egypt, Israel and, more recently, Turkey--through the administration's use of "cash flow" method of financing. This method allows the countries to set aside only the amount of money needed to meet the current year's cash requirement for multi-year production contracts rather than the full amount.

This has allowed the countries to stretch buying power and place more orders than the available credit guarantees authorized in a given year. It appears to us that this implies a commitment for the Congress to approve large financing programs in future years to ensure that signed contracts are honored.

As we reported in January 1982, the full ramifications and implications of the cash flow authorizations for Egypt and Israel were not presented to the appropriate committees and thus may not have been subject to close congressional scrutiny.

Security assistance for Israel

As has been the case in recent years, the largest recipient country for U.S. assistance is Israel and we have in process a report on U.S. assistance for the defense of Israel. Considering the significance of this program, we would like to make a few comments about the results of our review.

As mentioned earlier, certain countries are likely to have difficulties in repaying their defense loans under current conditions. Israel is among these countries since much of its FMS assistance has been provided under long term loans for which principal repayments are just now starting to come due. For Israel to be able to maintain and pay for its defense needs, it most likely will continue to ask the United States to take more liberal financing steps to make this possible.

As an example of this evolving situation, it is important to note that the cash payments that Israel receives under the Economic Support Fund (ESF) are now less than the repayments it is obligated to make for principal and interest on its FMS debts. In other words, there is now a net flow of cash to the United States rather than Israel within the security assistance programs. Furthermore, it is likely that the rate of this flow will increase during the period of the 1980s. In view of this circumstance, the Senate last year considered linking these amounts to ensure that ESF would be sufficient to cover the payments but legislation was not passed. If Congress were to approve such linkages, it could set a precedent for other countries who are incurring debt problems to ask for the same treatment. If this occurs, U.S. program costs will increase significantly.

Israel has asked the United States for, and has already received to some degree assistance under liberalized methods. The precedents being set by those liberalized methods agreed to could also increase program costs if other recipient countries start asking for similar concessions. For example, the cash flow financing method, which we discussed earlier, was initiated for Israel and now other countries are involved.

Appropriateness of military equipment

The question of how the security assistance programs are implemented is also of continuing concern to us because of the importance of getting the most of each dollar spent.

Our June 1, 1982 report on "U.S. Security Assistance to the Republic of Korea" highlights a concern over the use of a substantial part of the program for sales of F-16 aircraft. The United States prefers that the South Koreans build up their ground force capabilities. However, as is the case for many recipients, they like to obtain more sophisticated aircraft. These quickly use up the available funding to the detriment of such things as ground force needs.We recommended that basic program goals might be better met through developing a more definitive and mutually acceptable assistance plan.

A similar case is from our February 1982 report on "Forging a New Defense Relationship With Egypt." The decision to provide the Egyptians with sophisticated aircraft was more political than military. While Egypt's needs were so great that any new equipment was welcome, the security assistance provided by the United States was used to provide F-4s in 1979. Egypt wanted these planes after seeing Israel successfully use them in the

1973 war. However, F-4s are difficult to maintain and require sophisticated supply and maintenance capabilities. As expected, Egypt has had difficulty maintaining acceptable operational rates.

Leasing DOD property to foreign governments

Finally we would like to briefly comment on the leasing of military equipment to foreign countries. In a 1981 report, we recommended that rent-free or nominal-cost leases be prohibited and procedures be established to require monitoring of lessee compliance with lease terms and payment schedules. In November 1982, we issued a follow up report discussing whether the leases complied with provisions of chapter 6 of the Arms Export Control Act. We found that financial management and monitoring of leased property is still inadequate and congressional notification requirements are not being fully met.

PREPARED STATEMENT OF HERBERT L. BECKINGTON
OFFICE OF THE INSPECTOR GENERAL
AGENCY FOR INTERNATIONAL DEVELOPMENT

This is in response to your letter to me of February 25, 1983.

You note that from the Subcommittee's continuing review of A.I.D. Inspector General reports it is apparent that the Agency is experiencing serious operational problems in the control, direction and implementation of its projects and programs. You observe that the frequency of critical findings in IG reports raises fundamental questions regarding the Agency's administrative and managerial competence. You pose a number of questions upon which the Subcommittee solicits my views from the standpoint of my oversight responsibilities as they affect the economy, effectiveness and efficiency of this Agency's program administration.

First, let me direct my attention to specific areas of Subcommittee concern.

An update of major issues examined in my hearing before the Subcommittee last year:

The issues examined by the Subcommittee in April, 1982 were (1) the efficacy of the Agency's internal controls, (2) A.I.D.'s project implementation and the closely related subject of A.I.D.'s use of the host country contracting method of project implementation, (3) problems in the administration of operating expense funds in overseas missions, (4) A.I.D.'s administration of the PL 480, Title II program, (5) publicity for A.I.D. programs in recipient countries, (6) PVO performance and accountability and finally, (7) the relationship of audit findings to the Agency's individual personnel reporting system.

I must advise you that based upon my reporting over the past year, I have noted no marked or significant forward movement in any of the specific areas addressed in my testimony last year.* This is true even though the Agency's very specific interest in, and efforts to correct and improve performance which I reported last year have continued and have even intensified in several important areas. I characterized as vigorous the effort to raise and improve the Agency's administrative and managerial performance standards. That same sense of vigor marks the approach to these problems today, a full year later. It is reasonable to assume, given the inherent time lag of the audit process, that these efforts, if successful, will begin to be reflected in our audits within the next year.

The Subcommittee has noted:

Continuing Problems of Cash Management

IG reporting continues to identify and report on cash management problems. At various management levels in the Agency we fail to maintain adequate oversight and accountability over advances to contractors, often we do not control the amounts advanced and the time periods advances are required for contractor performance. Frequently the Agency pays for goods and services not received or not received in full compliance with the contract terms. We find excessive use of the expensive bank letter of credit in payment of Agency obligations. The bank letter of credit provides a simple payment mechanism but provides the least protection against paying for flawed or inadequate performance.

The cumulative cost to the taxpayer of inept or inadequate cash management in the foreign aid program can be significant. For example, in one instance alone involving a documented practice of excessive cash advance drawdowns under the Federal Reserve Letter of Credit (FRLC) system it was possible to calculate an unnecessary additional interest cost to the U.S. Treasury of about $2.5 million flowing from the Agency's practices.

The Agency is engaged now in a number of specific efforts designed to strengthen and improve cash management. These are being undertaken in part because of the Agency's own audit reporting of problems and in part because of the heightened emphasis on the subject throughout the federal government as typified by OMB's Circular 123 on internal controls.

For example, the Agency is tightening its controls over advances and reducing and limiting the use of bank letters of commitment. Additional positions have been provided to the office responsible for the Agency's management, monitoring and surveillance over Federal Reserve Letters of Credit. A Payment

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*I exclude from this overall assessment the subjects of mission operating expense funds and relationship of personnel performance reporting to audit findings. There has been little IG reporting on the former in the past year; I do not have adequate general data on the latter to warrant a judgment.

Verification Task Force has completed its work and recommended several additional actions to improve Agency cash management.

Continuing problems of contractor performance and contract administration:

IG reporting is repleat with examples of poor or substandard contractor performance occurring in both host country and direct A.I.D. contracting. These include inadequate contractor accounting systems, inaccurate time reporting and labor distribution, overcharges, failure to perform in compliance with contract terms, i.e., failure to deliver and failure to deliver on time, failure to provide staffing to fulfill contract terms on time and in numbers and qualifications as promised, failure by the contractor to meet A.I.D. or host government contract reporting requirements. These kinds of contractor performance deficiencies are of long standing in the Agency's foreign aid delivery program.

A.I.D.'s contract administration seems frequently to lack the sophistication necessary to be efficient and effective:

- Contract terms are frequently vague or incomplete.
- A.I.D. and/or host country monitoring during contract period is often seriously inadequate.
- Less than full performance is too frequently accepted as adequate performance.

The Agency has begun to require over the past year a new semi-annual status report on poorly performing contractors, and installed a new system of contractor evaluation at the end of 1982 drawing upon recommendations provided by a Booz, Allen, Hamilton study.

Inefficient procurement practices for project commodities and services:

Almost two years ago my office prepared an audit report entitled, "Improvements are needed in A.I.D.'s Procedures for Project Commodity Procurement". (Audit Report No. 0-000-81-142). Based on my review of audits of A.I.D. projects and programs since the issuance of the report, I am unable to point to any changes yet adopted by the Agency that would introduce corrective measures to the inefficiences noted. In a broad sense, weaknesses in A.I.D.'s procurement practices are just another aspect of the general problems that confront our implementation efforts. It must be assumed that the goals of the procurement system are met when A.I.D. receives the goods and services required on time, at the location requested, and for the money made available for such purposes. IG reports frequently disclose that the present system too often fails to meet these basic goals. The problems of project procurement are being actively addressed now, but again it is too early to know what corrective actions will be taken.

Continuing ineffectiveness and inefficiencies in the delivery of food aid:

Inspector General reports continue to document problems which impact adversely upon the effectiveness and efficiency of A.I.D.'s delivery of food assistance under PL 480, Title II. My testimony of last year before the Subcommittee remains essentially valid today. We continue to find numerous examples of weak and ineffectual oversight over these programs on the part of A.I.D., the voluntary agencies which execute the programs in the recipient countries as our agents and the recipient countries themselves. Control over commodities, lax claim actions and procedures, selection of the recipient groups and monitoring of the commodities intended for those groups continue to be problem areas in this program. We have reported on some programs which appear to have become little more than open ended welfare feeding programs with little evidence of the development or educational impact envisioned as integral goals of the program. Food aid is a major Agency responsibility, one which poses significant administrative and managerial challenges in the country environments where it is delivered. Program improvement on a broad and sustained basis would seem to be largely dependent upon the Agency's ability to find ways to increase its own oversight and monitoring.

Repetitious instances of what appear to be unrealistic expectations of host country participation in A.I.D. supported projects and programs:

This was a subject of my testimony last year. IG reports continue to reflect problems of implementation in A.I.D. funded projects executed and directed by the host country. Typically in these reports we find the host country experiencing difficulties in carrying forward the project as it has agreed to do. We find shortfalls in agreed to counterpart funding, contract administration, accountability for funds, procurements of goods and services, management and control of contractors of various kinds including construction contractors and overall project management and administration.

The Agency's host country contracting procedures require that an assessment of host country capabilities precede a decision to use the host country contracting approach in implementing a project. If carried out thoroughly and conservatively this pragmatic planning step should reduce the incidence of host country related implementation problems of the kinds noted above. It is unrealistic to think that they can be totally eliminated in the risky environment of the foreign aid program. In projects reviewed by the IG the records dealing with the decision point to use the host country contracting approach are frequently incomplete or in some cases essentially non-existent. Yet, there is enough information available to suggest that in the face of significant evidence to the contrary, A.I.D. planners have over optimistically assessed the various capabilities of the host government necessary to project success, or essentially overlooked this vital planning step. I think it is appropriate for me to note that although my reporting continues to reflect serious, even egregious problems of implementation associated with the host country contracting process, there is in fact a new awareness of these problems in the Agency. Efforts to strengthen and improve our performance and that of the host countries are in train. The typical, repetitive kinds of implementation problems that occur in these situations are extremely difficult to deal with; the success of the Agency's efforts to confront them will, in my judgment, remain in doubt for some time.

General Observations:

It is clear from this summary that implementation of A.I.D.'s programs suffers at the delivery end from a continuing series of administrative and managerial problems. Can implementation be improved and strengthened, or is the foreign aid environment too difficult to expect improvement? Is it possible to identify reasons and underlying causes for the conditions which prompt the Subcommittee's concern?

The foreign aid environment in almost all recipient countries is, in fact, a very difficult one. I summarized the principal reasons for this in my testimony last year. If something can go wrong there is a higher than normal likelihood it will. Implementation is a matter of concern in the Agency and is currently receiving a substantial amount of effort to include the attention of a special study group of senior officers presently examining the subject. Deobligation of funding for troubled projects in the first quarter of FY 1983 equaled 17.5 million compared to about 2.8 million in the same quarter of FY 1982. Yet, the most senior management group of the Agency has too little time to devote to this vital subject. Concerned with policy matters at various levels within our government, with foreign governments and international bodies, with planning, presenting and defending a foreign aid program, our senior managers are pretty fully occupied facing outward.

The heavy Agency use of host country contracting has been and continues to be a major source of implementation problems. This method of foreign aid delivery is basic Agency policy. It carries with it a number of practical problems which are now well defined. At a minimum it is vital that realistic assessments of host country capability at the outset and closer monitoring of actual host country performance thereafter occur. IG reporting does not yet reflect acceptable performance on either count.

Often A.I.D. is not institutionally alert to developing implementation problems and action oriented in moving promptly to correct them. Your Committee is familiar with the Sahel program problems. They developed and persisted over a period of years, and they are only now being dealt with aggressively after acquiring high visibility both within and outside the Agency. The various management levels responsible for those programs proved ineffectual in dealing with the several serious problems until very senior level attention was brought to bear on them. I refer you again to my concern that our senior management group is left with so relatively little time to focus upon the actual specifics of problems of implementation in the field.

The Agency faces an extremely difficult problem in establishing and assessing accountability for results. Typically A.I.D. programs once planned, approved and underway extend out in their implementation phases over a period of years. Responsibility for results is sometimes diffused organizationally between field and headquarters managers and over a succession of individuals. The result can be drift and indecision. Clear warning signs of developing problems are not picked up and acted upon. Individual projects can fall seriously behind plan even to the point of substantial actual or potential failure without firm corrective action being taken on any level.

The transitory nature of A.I.D. personnel staffing in its missions overseas compounds the problems of assigning and assessing accountability for project and program implementation. The project life of major A.I.D. activities as a rule extends beyond the normal tours of the personnel assigned to the missions. This is a fact of life in A.I.D.'s operations and a major obstacle to effective continuity of project control and management. It, therefore, is essential that there be an effective turnover system in place that permits an orderly transition when Directors, Project Managers, and other key management personnel in the field are brought in and out of th

A.I.D. missions overseas. IG reporting has documented a substantial number of examples where the failure to maintain effective management continuity of major projects has contributed to problems in project implementation.

Finally, you note the limitation on A.I.D. IG staffing and ask if other methods such as contracting might be used to expand IG operations. Contracting with non-federal audit firms does offer an opportunity to strengthen and reinforce the A.I.D. IG functions. A procedure for the use of non-federal auditors will be put in place in A.I.D. within the next few weeks on a worldwide basis under the control of the Inspector General. GAO standards will be required and the resulting reporting on financial compliance type reviews will be tied in on a regular basis to the IG's reporting and recommendation follow-up system. It is a step which promises a significant reinforcement of the A.I.D. IG function.

INTRODUCTION OF AID ADMINISTRATOR

Senator **Kasten**. Also at the appropriate place in the record, we will insert the full text of the statements provided by the regional and other bureaus and programs.

Peter, we have your prepared statement. If you will summarize it, it will be helpful. Although we do have prepared statements from the other people here at the table, what I thought might be helpful is for you to finish your statement, and then call on each of them to give a brief summary of some of the highlights of their programs. We will spend most of the time on questions.

INTERRELATION OF ECONOMIC AND SECURITY ASSISTANCE

Mr. **McPherson**. Thank you, Mr. Chairman.

I would like to talk about how economic assistance and security assistance are fully integrated. We have a world in which the economic structure is more than entwined, so it is much more practical to look at the world economy these days rather than at the individual country's economy.

The United States has 43 percent of its trade with the developing world. We figure that about 60,000 to 70,000 jobs will be lost for every billion dollars of reduction in trade with the LDC's. My point is, of course, that it is a tremendously entwined world, and we have to look at that world and at the hard times in developing countries. In our program, we have a short-term approach and longer term approach. We think they are related and work together. Our Public Law 480 program, as well as our balance of payments support through ESF, all tie in generally with the IMF's longer term economic efforts.

Our development assistance program, on which we will focus today, emphasizes training, institution building, policy reform, tying in with the World Bank and its various efforts. A very important part of this is encouraging private investment.

Let me take Sudan as an example of a country where AID is playing a key role in tying all these things together. Several policy changes are being made in connection with the IMF agreement. We are supplying ESF, commodity import programs, Public Law 480, primarily wheat for the urban population.

We are working closely with the World Bank to look at the agricultural situation in Khartoum. Agriculture must be efficient in order for a country to be viable. In other words, the World Bank is looking at longer term things such as dry land agriculture, population programs, and several other longer term efforts. The third leg of this whole thing is private enterprise.

Chevron is talking about putting $1 billion into the country for a pipeline from southern Sudan to the port in Sudan, generating $200 billion a year in hard currency in a few years. The Overseas Private Investment Corporation, which I chair, will perhaps be insuring some of that investment.

My point is that we have put together in the administration an integrated long- and short-term response to these kinds of problems. AID, with its management of a good part of this overall development effort, a very important focus of which is DA, is an integral part of this overall effort.

Thank you, Mr. Chairman.

[The prepared statement of Mr. McPherson follows:]

PREPARED STATEMENT OF M. PETER MCPHERSON

ACTING DIRECTOR
INTERNATIONAL DEVELOPMENT COOPERATION AGENCY
AND
ADMINISTRATOR,
AGENCY FOR INTERNATIONAL DEVELOPMENT

Mr. Chairman, it is an honor to be here today to present our foreign economic assistance proposals for the coming fiscal year. I would like to take this opportunity to thank you for the leadership and support which you and the members of your Committee have given us in the past. I look forward to our continued cooperation in the future.

I think this is an appropriate point in time to consider the status of the foreign assistance program -- its history, its role in today's world, and what we should be doing in the future.

Third World Economic Situation

As Secretary Shultz has testified, we meet at a time when nations around the globe are beset by serious economic problems. Particularly hard hit have been the nations of the Third World. Developing countries as a group have faced severe difficulties in recent years as a result of the world's deep economic recession. Most developing countries have suffered significant reductions in their rate of growth. The average growth rate of the non-oil developing countries dropped from 5.3 percent in 1978 to about 1.5 percent last year. Coupled with continued rapid population increases, more than half of the lowest income countries had lower per capita real gross domestic product in 1982 than ten years ago.

During the last three years, non-oil developing countries have experienced record current account deficits -- totaling $97 billion last year. These deficits can be traced to several factors: the recent doubling of oil prices and sharp rise in interest rates, the decline in world trade as a result of the economic slowdown in the industrial countries, and the deteriorating terms of trade in the developing countries, particularly for those which export primary products. As a result, they have experienced a sharp contraction in export earnings and their foreign exchange receipts have been increasingly diverted from investment purposes to financing immediate import requirements such as food and oil, and to short-term debt servicing.

With respect to the debt picture, the OECD estimates that the average ratio of debt service payments to exports rose by 50 percent or more over the last six years. The International Monetary Fund estimates that total outstanding external debt of non-oil developing countries increased from $375 billion in 1980 to $505 billion in 1982. In 1981, 13 countries had to undergo debt rescheduling, and the situation worsened in 1982, as a number of major middle-income countries in Latin America and Eastern Europe began to have difficulties servicing their commercial debt. In response, commercial lenders tightened up their risk exposure in many developing countries.

The implications of this combination of trade and debt pressure are particularly serious for stability and longer-run economic progress in the low-income countries, countries important to the interests of the United States and our economy. With the beginnings of economic recovery, suggested by recent reductions in interest rates and the possibility of declining oil prices, the economic picture for the developing nations may begin to improve. Our foreign assistance program can play an important role in their economic recovery just as our supporting their economic development is important to the economic, humanitarian, political, and security interests of the United States.

U.S. Interests in the Third World

In terms of our economic interests, it has become a well-recognized fact that the degree of interdependence between ourselves and the Third World has increased markedly in recent years. Trade with developing countries has become an important part of our economy. In short, every state in the union is involved in exporting to developing countries.

Let me cite some numbers. In 1981, our exports came to about $230 billion, of which exports to the developing world, including the oil exporters, totaled over $99 billion -- nearly 43 percent of the total. Just ten short years ago, these countries absorbed only $15 billion or 30 percent of our total trade in that year.

In recent years, the oil-importing developing countries have represented the fastest growing market for U.S. products -- our exports to these countries have been increasing at an average of 25 percent a year. The growth of U.S. exports has been particularly dynamic in those countries which have achieved rapid economic growth and have pursued policies which promote economic efficiency and development, including outward-looking trade policies, such as Kenya and Brazil.

U.S. exports of manufactures have shown particularly strong growth. More than 80 percent of the manufacturing jobs created in the late 1970s were linked to exports and fully one-eighth of all U.S. jobs in manufacturing are now export related.

Exports of agricultural products are also very important. Total U.S. agricultural exports reached $43 billion in 1981 compared with less than $18 billion in 1973. It is estimated that the harvest of one out of every four farm acres in the

United States is now shipped to the developing countries. Overall, exports to the developing countries have come to account for 20-25 percent of U.S. gross farm income.

In addition to generating income for workers directly involved in producing export goods, many more U.S. jobs are provided indirectly by associated exports of services, such as grain elevators, transportation, insurance, banking, management, technical assistance, and other service areas. Exports of services have been a major positive element in the U.S. balance of payments. As the developing countries have improved their economic performance, their capacity to buy our goods and services has increased -- and substantially so.

Besides providing a market for U.S. goods and services, the developing countries are a source of important, sometimes crucial imports. Over 44 percent of our imports currently are raw materials essential to the functioning of our economy, a large proportion of which come from Third World nations. In particular, developing countries provide 75 percent of the total amount of tin, bauxite, zinc, and cobalt we require. Furthermore, imports of other goods stimulates cost-cutting technological change which increases our economic efficiency and helps to reduce inflationary pressures.

Not only are the developing countries becoming more important as trading partners, they have become major recipients of U.S. private capital flows as well. U.S. private bank lending to the non-OPEC developing countries has increased significantly, both in absolute amount and as a proportion of their total foreign loans. Whereas in 1970, only 8 percent of U.S. international lending went to these countries, by 1980 they were absorbing fully 47 percent of the total. And these external capital flows, by helping foster economic development, have facilitated the entry of these countries into the international commercial capital market to fulfill their capital needs.

In addition to the long-term contribution which our assistance programs make to the U.S. economy and trade through the promotion of development, the U.S. foreign assistance program directly promotes U.S. exports of goods and services. Of total spending for foreign assistance, about 70 percent is spent in this country, on purchases of U.S. goods and services, including agricultural commodities procured through the PL 480 Food for Peace program. Also, requirements for replacement parts for aid-funded equipment and follow-on or complementary activities increase the potential for future demands for U.S. products. Technical assistance in the preparation and design of activities can further increase the potential of U.S. sales. Finally, aid activities can increase the general familiarity of developing country officials, contractors, and beneficiaries with U.S. products and companies.

Our contributions to the multilateral development institutions also have a positive impact on the U.S. economy. Total procurement of U.S. goods and services deriving from their operations exceeds the amount of budgetary outlays for our contributions to them.

Besides these economic benefits, development assistance addresses the traditional humanitarian concerns of the American people by promoting long-term, self-sustaining, equitable development which increases the developing countries' capacity to address the basic human needs of the poor majority in their countries. Through our programs, we contribute to the fight against hunger and disease throughout the world. We also help to raise the standard of living for a broad range of the world's population. The PL 480 program, for example, provides assistance to meet critical food needs, combat hunger and malnutrition, and increase resources for development. Our disaster assistance provides relief to help deal with natural and man-made catastrophes, including refugee problems. Also, foreign assistance promotes development in which traditional American concern with individual civil and economic rights is respected and enhanced.

In terms of U.S. political and security concerns, recent events in the Middle East, the horn of Africa, Afghanistan, Central America, and the Caribbean have clearly demonstrated that conflicts, problems, and instability involving the developing countries have a very direct effect on our political and security interests. Often the policies and actions of an individual developing country or group of developing countries can have a significant impact on key regional and global disputes and issues of importance to the United States.

Widespread poverty, economic crisis and severe economic dislocation can create an environment that is susceptible to violence, political instability, and the possible intrusion of those who try to exploit instability to their own advantage. However, when people have a reasonable hope that living conditions will improve over time and actions are being taken to address the most pressing economic problems, they have a greater stake in the achievement of stability and peace. Our efforts in support of economic progress constitute a key element in helping to maintain stability in countries and regions important to U.S. interests. They also contribute to furthering peaceful change and the development of open, democratic institutions in friendly countries.

History of U.S. Foreign Assistance

Given the current economic situation and the importance of foreign assistance to this country, it is worth spending a few minutes retracing the various phases through which United

States policy toward development assistance to foreign countries has moved since its inception. While this history is well known to many members of this Committee, Mr. Chairman, I believe it is useful to review it as a backdrop to our plans for the future.

Seen in perspective, these various phases of our foreign assistance program reflect a continuous adaptation to the evolution of thinking on the process of economic development. As our understanding of that process has deepened, each phase has revealed further hurdles to be overcome in the effort to help achieve rising standards of living for the bulk of the world's population. The interaction of old approaches with new concerns has helped to shape the thrust of our assistance from stage to stage and explains the shifting priorities of our program over time.

The present-day foreign aid program developed, of course, out of our initial successful experience with European and Japanese reconstruction following World War II. Our subsequent efforts, during the 1950s and 1960s, in attempting to replicate that success in the newly emerging nations of the Third World, focused on growth of the capital stock in the form of infrastructure and industrial development, combined with improvements in human capital through education and training.

With this goal in mind, little attention was paid initially either to the important role which agriculture should play in the development process, or to the employment implications of capital-intensive industrialization, or even to the importance of trade as a means of securing benefits based on each country's comparative advantage in production.

Toward the mid-1960s it became increasingly clear, though, that population pressures were eroding a large proportion of the gains in income which had been achieved by many countries.

Furthermore, grave doubts arose with respect to the distribution of these income gains. Equity considerations came to be recognized as important factors in the development process. It became evident that the political, social, and economic structure which had evolved in many less developed countries had produced little improvement in economic well-being for the poor of these countries. To help correct this situation, a new concern with the effect of our assistance on the poor majority emerged a decade ago, in the form of the current New Directions legislation.

Response to this concern has taken several forms. Development projects began to be designed to encourage local participation. Involvement and commitment of key population groups to shaping their own future came to be seen as essential to broad-based and self-sustaining development. The new attention to participatory development also has implied a basic shift in emphasis from industrialization to agriculture as a primary focus, since the bulk of the population in the developing countries lives in rural areas. A further response has been increased attention to allocating assistance directly to specific sectors and groups. As a result, we are now structuring the aid program so that we are focusing our efforts on those areas in which the United States has particular expertise -- institutional and human resource development, appropriate technology transfer, and mobilization of private sector resourcefulness in support of national development goals. I will go into this in more detail later.

In addition to this evolution in our own program, over time the United States has been highly successful in achieving increased sharing of the foreign assistance burden by other countries and institutions. Worldwide official development assistance (ODA) grew by over 40 percent between 1970 and

1981. As other donors have been involved in the development effort, the U.S. share of official bilateral development assistance flows (excluding contributions from Eastern European countries) has dropped. In 1960 we provided 60 percent of ODA, by 1981 our share was down to 17 percent. Also, in just the last decade, assistance from multilateral institutions almost tripled in real terms. And the OPEC countries, led by Saudi Arabia, have increased their share of official assistance to other developing countries from 5 percent in 1970 to 22 percent in 1981.

Also, as Third World nations have developed, they have become increasingly able to generate their own resources for development. As a result, between 1960 and 1980, we have seen the proportion of official development assistance from the OECD countries decline relative to the developing countries' gross investment expenditures (excluding capital-surplus countries) from 10 percent to 5 percent and the U.S. share has decreased correspondingly from about 6 percent to just over 1 percent.

Foreign economic assistance is a very small -- and shrinking -- part of the total federal budget. The combined contributions to A.I.D., the Economic Support Fund, Food for Peace, UN programs, and the Multilateral Development Banks represent only one cent out of every federal budget dollar and less than 0.3 percent of our gross national product. By comparison, during the 1950s, economic assistance represented an average three cents out of every federal budget dollar and over 0.6 percent of gross national product .

Results of the Foreign Assistance Program

What has this foreign assistance investment brought the developing countries? While they currently face serious financial problems, from a longer term perspective there has been dramatic improvement in many aspects of their economic and human condition. Although progress in many cases may not have been as rapid as we might wish, there is no denying that advances have occurred in the standard of living of much of the world's population. Throughout much of the developing world, population growth rates have leveled off. Average life expectancy has increased as advances in health care have become more widespread and nutrition has improved. Mortality rates of children under five years of age have been more than cut in half since 1960. And average school enrollment and adult literacy rates registered important increases for most countries.

Technological advances in agriculture, including the development of high yielding crops, and increased availability of energy -- at least until the early 1970s -- set the stage for relatively rapid growth for the developing countries during the 1960s and early 1970s. Overall rates of growth for non-oil countries averaged more than 5 percent annually, with middle-income countries showing even better performance.

As a result of these improvements, we now have a situation where some of the countries which we have assisted over the years are able to compete in their own right on the world market. Korea and Brazil are two such examples. And we see the emergence of middle-income countries, which by all economic and social indices, are no longer under-developed.

By and large, the countries which have shown the most rapid advances, are those which have used their resources wisely and have promoted their development through appropriate and consistent, generally outward-oriented, economic policies. The so-called newly industrializing countries have living standards and levels of development comparable to what some OECD countries had a short time ago, although pockets of severe poverty still persist in some. Their needs for concessional assistance are minimal.

The low-income countries are those which suffer from the worst human, social, and economic manifestations of under-development, and there exist wide differences in the basic human needs situation of individual countries. Most of the countries of Africa and the Indian subcontinent fall in this low-income category. These countries have inadequate human, physical, and institutional infrastructure and are often highly vulnerable to the vagaries of climate and international markets. These problems have frequently been compounded by economic policies which created distortions and reduced growth. It is this latter group of countries at which our current development efforts are principally aimed.

Current Development Picture

A basic lesson learned from our experience with economic assistance over the past decades is that development is truly a long-term process. The task of improving conditions for the millions of people living in absolute poverty in the developing countries is tremendous, and achieving desirable changes takes time. In spite of the advances which have been made, there still are serious development problems in many countries. Though food production in the developing countries as a whole has risen, on a per capita basis it has just barely stayed ahead of expanding population and, in the low-income countries, has declined during the last decade. Population growth, though leveling off, is still high. At the present 2.1 percent annual rate of increase, the population of the developing world will double in 33 years. Despite recent health improvements, in much of the Third World life expectancy still does not exceed 50 years, one-third of infants die before the age of 5, and hundreds of millions of adults suffer from chronic, debilitating illness. Despite past gains in literacy, more than half of the adults in the developing world remain illiterate. Besides lack of capital, ability to address these problems is hindered by such constraints as lack of infrastructure, including poor transport and communications, inadequate management and institutional capacity to plan and direct sound development programs, lack of a skilled workforce and of the means to acquire and adapt technology, and policies which inhibit the most efficient use of available resources.

Given the severity of these problems, presently compounded by the effects of the worldwide recession, it is therefore imperative that the international community provide the help which will permit these countries to continue to address their fundamental long-term economic problems and lay the basis for more dynamic long-term growth. Without such assistance, there is danger that countries will be forced to make drastic cuts in their long-term development programs as they endeavor to undertake the structural adjustments in their economies necessary to reestablish a sustainable economic position. Such a curtailment of the development effort could have serious negative long-term consequences neither the developing countries nor we can afford.

Future of the Foreign Assistance Program

What role our foreign assistance program should play in the recovery effort, both in the near term and beyond? In looking to the future, it is instructive to consider the lessons of the past. I believe there are some fundamental tenets which can guide us in shaping the future of our foreign assistance program to be derived from history.

As noted earlier, the situation in the developing countries has evolved considerably over the last two decades. Changes in the development situation and in the role of foreign aid as a catalyst to the development process have been paralleled by an evolution in our thinking with respect to three key questions: First, what is development? Second, how is it best achieved? Third, how can A.I.D. best contribute to the development process? At the cornerstone of our response to these questions, is our continued commitment to a basic needs approach to development. This orientation is more widely shared in the international community today than it was a decade ago when Congress initiated the New Directions legislation. However, even if accepted in principle, the political will to translate commitment into policies, investments, and budgets is often lacking.

We hold the dignity of the individual, with maximum freedom of choice and freedom of action, to be important goals of the development process. We see the process as the emergence of systems which provide for the sustained satisfaction of the basic needs of its people, including their need to participate in a free and open society. If there is economic growth, but the basic needs of the poor majority remain unmet, development has been by-passed and the ultimate goal will not be achieved. If basic needs are met, but there is not opportunity for social, economic, or spiritual growth, then the investment process is still incomplete. Both social and economic needs -- basic human needs and economic betterment -- are important complements in the overall development process.

Secondly, there are wide differences in the extent to which nations at similar levels of per capita income have made progress in dealing with the basic problems of hunger, infant mortality, disease and illiteracy. We now know that substantial progress in satisfying basic needs can be made without waiting for aggregate income to double or triple. We endorse and seek to promote development patterns which are efficient in translating overall growth into the widespread satisfaction of basic needs.

Finally, we recognize that by investing in people, in their health, education and capacity to adopt new technologies, we are investing in a key development resource. Satisfying basic needs is not just an end. It is also a means to further development.

Within this commitment, we have identified several tenets which should guide our assistance.

First is a recognition that technical assistance, rather than resource transfers, is by and large the best way to foster self-sustaining development, particularly given our overall budget constraints.

Second, our assistance should be focused in those areas where the United States has recognized expertise -- such as the sharing of our superb technological capacity in agriculture.

Third, in identifying technology for transfer, and in setting our research priorities, we must carefully consider conditions in recipient countries, so as to provide scientific and technological help appropriate to their needs and which will lead to the creation of self-sustaining development institutions.

Fourth, we need to maintain flexibility in our program to permit us to take advantage of promising, innovative ways of providing assistance and to allow us to adapt to changing conditions in the Third World.

Fifth, we need to pay much more attention than we once did to the central importance of host country policies in determining the outcome of development efforts and we must program our resources accordingly.

Sixth, we need to pay close attention to the planning and management of our program -- to ensure the policies we establish are implemented -- so that we are in fact maximizing the impact of the resources available to us.

Finally, we need to bear in mind that our limited resources will not permit us to do the job alone and that we thus need to exercise our leadership to mobilize and help direct the far greater resources available from the private sector, as well as from other donors and institutions, on behalf of development.

While we cannot ignore the short-term crises in which many developing countries currently find themselves, the principal focus of our economic assistance will remain the basic, long-term issue of development. Certainly the fundamental development problems of the Third World will persist even as global recovery gets under way. The developing countries will continue to require external support as they strive to reach the goal of self-sustaining development. Thus, our assistance must continue to address the basic, long-term challenge of development: to foster indigenous, self-sustaining productivity aimed at alleviating poverty and meeting the basic human needs of the Third World's poor. Our assistance will continue to concentrate in the functional areas in which we have been successful with in the past.

In our leadership role, we must help set the climate necessary for sustainable, broadly based development to take place -- in those societies which demonstrate a readiness to assume the responsibility for their own future. Obviously, though, it is neither possible nor desirable for this country to be all things to all people. The development needs of the Third World far outweigh the resources available from us and our fellow donors. Our foreign assistance resources are constrained by the same economic conditions which have dictated the limit on the overall level of federal spending. As a result it is essential for us to carefully allocate, and leverage, our limited foreign assistance resources in order to make best use of what we have available.

I believe our proposed program does just that. First, we have come to recognize the vital role that nost country policies play in the success or failure of development. Governmental policies, be they in the area of interest rates, exchange rates, budget allocation, farm prices or consumer subsidies, are of enormous importance to the development effort. The absence of a sound policy environment can undermine the usefulness of individual projects and negate long-term growth objectives. Accordingly, we are giving particular attention to allocating our aid dollars so as to encourage recipient countries to change those policies which hold back development by inhibiting the operation of free markets, discouraging private investment, limiting resource mobilization and productivity, inefficiently allocating public and private resources, and excluding access by the poor to productive resources and employment. Second, we recognize the absolute importance of coordinating our various economic assistance programs. Thus, we are devoting considerable effort to integrating both the objectives and the allocations of our various aid programs through full consultation with the Department of State and the other foreign assistance agencies.

We have set definite priorities in our budget allocations. For example, we have given high priority to countries which demonstrate commitment to their own development. We have focused our efforts on activities in those areas I mentioned earlier where the United States has a comparative advantage -- agricultural research, voluntary family planning, institutional development, and science and technology. Our comparative advantage does not rest in large capital transfers. Instead, we are now concentrating on activities which address host country constraints to self-sustaining development such as weak human and institutional capacity, and the lack of new, appropriate technologies. We are allocating our resources to develop lasting institutions systems to carry out the development process. By developing institutions, be they in primary health care or agricultural research, we can leave in place structures that will have ramifications far beyond the individual project level. And we have begun to emphasize the development and transfer of knowledge and appropriate technologies rather than capital.

We also are paying greater attention to efforts to mobilize other resources -- in the private sector, both from private enterprise and from the non-profit organizations such as PVOs and universities, and that of other donors, both bilateral and multilateral -- and we strive to ensure the complementarity of our assistance with that of these other sources of development resources. Also with respect to mobilizing the private sector, we seek to emphasize the involvement of the indigenous private sector as a development resource. Too often in the past there was a tendency to rely on government as the only way to carry out key development functions and thus a tendency to neglect the useful role that the private sector can play in advancing our efforts.

These four priorities, policy reform, involvement of the private sector, institutional development, and transfer of science and technology, have become known within the agency as the "Four Pillars" of our development effort. It is through these Four Pillars that we can achieve the kind of foreign assistance program envisioned by the President -- one which seeks to foster self-sustaining development by using initiative and creativity to help people help themselves while at the same time stimulating international trade and aiding the truly needy.It is a program which fosters the political atmosphere in host countries wherein practical solutions can be applied to social and economic problems.

Program Coordination

Besides having set some basic policies in place to guide our program, we also are trying to improve the coordination and implementation of the program. I want to stress that our new initiatives guide our program within the context of a continuing commitment to the basic needs orientation. In focusing on the host country policy environment, for example, we looking at the impact these policies have on the satisfaction of basic needs. Similarly with respect to our emphasis on the utilization of private enterprise and market forces, we are interested in the private sector as an instrument in breaking the cycle of poverty.

Recently, we have intensified our efforts to bring greater coherence and focus to A.I.D. activities. As you know, for several years, the Agency has had in place a country strategy programming system, according to which each country mission developed an independent strategy for best tackling the problems in that particular country. This country-by-country focus will continue. Recently, though, we have come to the conclusion that there may be significant value in giving greater coherence to our efforts and in concentrating bilateral assistance on a limited set of common development problems. This, of course, does not mean that we would be doing the same things in all countries. However, we have now instituted an agency strategic planning process which is essentially a search for greater agency focus. At the core of this process are the following questions. "What are the key development problems on which A.I.D. should concentrate?" "What are our goals with respect to these problems?" "How can we best use our budget resources to achieve results?"

It is still much too early in this process to say where we will come out. However, we expect it will help us to think in terms of specific measures of progress. It will help place our effort within the larger context of the efforts of the host country and other donors to make progress against selected problems. It should encourage us to think in terms of programming in a comprehensive manner against key problems, rather than in an isolated, project-by-project manner. And it ought to lead us to search for ways of better focusing our budget resources so that thay can serve as encouragement to host countries to engage with us in comprehensive policy and investment decisions directed to meet basic needs. I do not believe, though, that this new process will result in any fundamental shift away from the functional areas we are now successfully engaged in. It is rather to allow us to better focus and coordinate our existing efforts in these functional areas. As we engage in this process, we are asking ourselves, "How can A.I.D. have a positive influence on the development process and make a difference from what would have happened anyway?" We recognize that not all countries share our approach to development, nor are many prepared to take the difficult budget and policy steps required to tackle these problems. Our objective, though, is to be in a position to encourage this way of thinking about development, to mobilize resources in the international community, and to provide significant support to those nations that are committed to dealing with key problems.

FY 1984 Program

With this background, I would like to discuss the main points of our proposals for the next fiscal year and mention some interesting new activities which we will be getting into.

We are proposing an economic assistance program of $7.8 billion. It is only 2.2 percent more than our requirements for the current fiscal year, representing no increase in real terms.

In addition to our requests for FY 1983 security assistance supplementals we believe are necessary for high priority U.S. foreign policy objectives, our FY 1984 request for bilateral assistance consists of $1.890 billion for Development Assistance, $2.949 billion for the Economic Support Fund, $22 million for the Trade and Development Program, and $1.052 billion in budget authority for the PL 480 Food for Peace program.

Development Assistance.

The Development Assistance request includes $1.342 billion for the five Functional accounts, $103 million for the Sahel Development Program, $7.5 million for the support of American Schools and Hospitals Abroad, $25 million for the International Disaster Assistance program, and $378.5 million for A.I.D. Operating Expenses. In addition, an appropriation of $33.9 million is required for the Foreign Service Retirement Fund, for which an authorization is already in place.

More than three fourths of the funds allocated directly to countries in the Functional Development Assistance accounts are directed to "low-income" countries, those with a per capita income below $795. Let me discuss briefly the proposed program in each of these accounts.

Agriculture, Rural Development and Nutrition. Our Agriculture, Rural Development and Nutrition program has three principal objectives -- to help increase and sustain the productivity and incomes of small farmers, to assist in creation of employment opportunities for the rural poor, and to help improve access to, and use of, food. Our program stresses the removal of policies inhibiting broadly-based growth, the development of private and public sector capacity to foster increased ag production and employment expansion, the development and use of improved agricultural technologies, and the improvement of human resources, rural infrastructure and the natural resource base in recipient countries. A total of $725.2 million is proposed for the Agriculture account. About 21 percent of this would go to Africa, where population growth continues to outstrip food production.

Agricultural Research. An area of great promise within this account is that of agricultural research. As President Reagan said at the World Affairs Council meeting, "Increasing food production in developing countries is critically important -- for some, literally a matter of life and death. It is also an indispensable basis for overall development. The United States has always made food and agriculture an important emphasis of its economic assistance programs. We have provided massive amounts of food to fight starvation, but we have also undertaken successful agricultural research, welcomed thousands of foreign students for instruction and training at our finest institutes, and helped make discoveries of the high-yielding varieties of the Green Revolution available throughout the world".

Particularly vital to the establishment of self-reliant, sustainable food and agricultural systems are national institutions that give a country the capacity to generate and apply a continuing stream of innovations designed to increase agricultural productivity and incomes; and to evaluate and adapt technologies transferred from developed countries and international institutions. Advances in food and agricultural science and technology have not only increased productivity but have also facilitated the substitution of less expensive and more abundant resources for more expensive and increasingly scarce resources.

A.I.D. supports this research, often working through the Title XII Land-Grant Institutions, through creation and strengthening of research institutions. We are giving attention to adapting existing research results and to promoting the use of improved technologies. We are giving special attention to encouraging linkages amoung researchers, extension agents, and farmers. And we are encouraging development of systems that optimize sustained resource use, including the capabilities of farmers on small holdings.

We have recently undertaken a thorough review of our agricultural research needs and I am happy to tell you of several innovative directions we will be undertaking over the next several years. We will be getting into research on farm systems for fragile environments, and for remote areas, which use a minimum of purchased inputs, research on better crop and animal protection including integrated pest management, on livestock as part of mixed farming systems, on the evaluation of the impacts of food and agricultural policies on food security, nutrition, production incentives, and the very poor, and on the factors necessary for successful dissemination of research results

Population. The A.I.D. Population program addresses the critical problem of excessive population growth in the Third World, which constitutes the primary obstacle to increasing per capita food production, reducing malnutrition and chronic disease, and conserving dwindling non-renewable resources. A.I.D.'s population program emphasizes the provision of voluntary family planning services and information, but our overall development program recognizes the links between family planning and progress in the areas of agriculture, rural development, health, and education programs. Our program is based on the principles of voluntarism and informed choice. We give preference in our funding to programs that provide a wide range of choices of methods -- excluding abortion -- and strongly encourage the inclusion of information and services related to natural family planning methods wherever this is appropriate. We also believe that the U.S. has the responsibility to help strengthen the institutional capacity of developing countries to deliver basic services and implement development programs themselves, using local infrastructures and the private sector to the maximum extent possible. For this reason, we are investing heavily in the training of service providers and personnel who manage service programs.

A level of $212.2 million is requested for the Population program. Well over 80 percent of the funds are for voluntary family planning services and related activities in country programs.

Health. For A.I.D.'s Health account we have proposed a program totaling $100.7 million for FY 1984. While this represents a decrease from the level in the current year, it in no way reflects any reduction in our commitment to providing assistance in the health area. Real improvements in health status are a necessary condition for sustained economic development. The reduction in health funding for FY 1984 is the result of several short-term factors unrelated to our long-term commitment to this area. First, as a result of our recently completed analysis of health programs -- which culminated in a new health policy paper -- our health program will give greater emphasis to selective primary health care. This new emphasis will tend to be less costly, on a project-by-project basis than previous health activities, such as commodities and construction, and will permit us, in the long run, to do more with our available resources. Second, our FY 1984 requirements reflect the fact that we were able to do some accelerated programming which would otherwise have had to await FY 1984 funding. Third, we anticipated, and indeed are seeing, a short hiatus in requirements for health funding while our field missions identify and develop projects consistent with the new health policy.

In fact, we are already working to develop promising new health programs in several areas, including the following.

Biomedical research. The U.S. development assistance program will continue to give great attention to biomedical research leading to the development and application of new technologies to alleviate the most pressing health problems in the developing world. This will include support for basic research, such as that done on malaria, in which, by the way, a major breakthrough was made this past year that puts us one step closer to an anti-malarial vaccine. And it include support for research aimed at the application of new technologies, including rapid diagnosis of diseases and field testing of new vaccines.

Oral Rehydration Therapy. Another exciting new area in health is that of Oral Rehydration Therapy -- ORT. Diarrheal disease currently kills an estimated 5 million infants and young children each year. It is the largest single cause of death among children in the developing world. Yet ORT, a simple home treatment for diarrhea, could save the lives of up to 13,000 children every day. It can be administered effectively at home by mothers, is nothing more than repeatedly feeding a dehydrated child a mixture of salt, sugar and water. ORT is the preferred therapy in all but the most severe cases of diarrhea and dehydration. It has been hailed as potentially the most signficant medical breakthrough of the century.

We have supported ORT research, largely through funding the International Center for Diarrheal Disease Research in Bangladesh, where much of the basic research on ORT was conducted. In FY 1984, we hope to expand our support for ORT research to include the Diarrheal Disease Research program sponsored by the World Health Organization.

A.I.D. also has been instrumental in the dissemination of ORT. One A.I.D.-funded ORT program in Egypt demonstrated that widespread use of this therapy could reduce deaths among children under the age of 6 by 40 to 50 percent.

We plan to include ORT as a critical element of our primary health care programs. We intend to provide resources for dissemination of ORT through numerous bilateral health programs, and through a centrally-funded project aimed at rapid implementation of selected, effective health measures. We also are planning a major international conference in June, 1983 to call the attention of international donors and developing country leaders to this important health breakthrough.

I believe that these and other new activities in health should lead to additional, higher priority health programs for future funding. Thus I expect that the decrease in FY 1984 requirements for the health account will be seen as a temporary phenomenon. I am certain that it does not in any way reflect a weakening of our historically strong support for health programs in developing countries.

Of the amount we are requesting, about 30 percent would go to Africa, reflecting the continuing need in those countries for basic health services, rural water and sanitation programs, and immunization campaigns to combat diseases which are a major cause of death and disability in region. In Asia and Latin America, where health care programs are well under way, our focus is on helping expand access to basic health services. We also plan to give increased attention to health planning and management, to operations research, and to the transfer of proven health technologies.

Education and Human Resources. In the Education program, we have proposed a modest increase for FY 1984. The education situation in developing countries remains critical despite significant increases in budgetary allocations by the developing countries themselves and significant gains in school enrollment over the past several decades. More than 30 percent of school-age children in the Third World do not enter primary school and less than half of those who do will stay long enough to complete their primary education. Most countries still confront severe shortages of trained manpower, particularly those needed to administer their own development programs effectively.

The education problems of the Third World far exceed our capacity to assist. Thus we have given priority to activities in selected areas where we have recognized expertise, such as manpower development and training, management capacities of educational institutions, improvement and expansion of basic primary education, vocational and technical training, and support for labor organizations. Our FY 1984 request for Education is $121.5 million. We would allocate about 30 percent to Latin America, principally for manpower development activities and for continued efforts to help reduce high primary school dropout rates. Another 30 percent would go to Africa, to help reduce the acute shortage of trained administrators which constitutes a major obstacle to development.

Reimbursable training. I might mention, too, that as a promising new part of our overall effort to assist the educational needs of selected countries, we are exploring expansion of the reimbursable program, funded by our Trust Fund account, through which we have helped countries such as Nigeria gain access to institutions of higher education in this country for advanced training of their citizens.

Energy, Private Voluntary Organizations and Selected Development Activities. In the section 106 account, we have proposed an increase to fund several very high-priority activities aimed at a broad range of Third World development problems. These include growing demands for energy, mounting environment and natural resources problems such as loss of agricultural land and water pollution, growing unemployment, and problems associated with migration to the cities and rapid urban growth. Our FY 1984 authorization request for section 106 is $182.4 million, which includes $10 million for Science and Technology activities also authorized under this account. Planned activities place a high priority on mobilizing private sector involvement, including greater reliance on Private and Voluntary Organizations -- PVOs. Including all development accounts, our funding for PVOs will exceed 13 percent of our development assistance program in FY 1984. In addition, PL 480 Title II voluntary agency programs will amount to $650 million.

Private Sector Revolving Fund. We also plan to support increased involvement of private enterprises in development. As part of that effort, we are proposing the creation of a new Private Sector Revolving Fund through which we would provide funds to help promote and expand private enterprises, particularly small and medium enterprises, develop and transfer of appropriate technology to private enterprises in developing countries, and develop and adapt techniques and financial intermediaries that foster private enterprise development. We would see this Fund as a catalyst through which we would provide resources for innovative activities in pursuit of our basic human needs goals not possible under current funding arrangements.

Science and Technology. For the $10 million requested for Programs of scientific and technological cooperation, authorized as I indicated under section 106, we plan to continue our emphasis on small competitive grants to stimulate innovative research approaches to development and to build indigenous scientific and technological capacity in recipient countries.

Sahel Development Program. In the Sahel program, we will be funding the seventh year of U.S. support for the ongoing multinational effort to assist development among these very low-income drought ravaged countries, particularly to help them achieve greater food self-sufficiency. Our request for FY 1984 is $103 million, including resumption of a program in Chad.

I am well aware, in making this request, that there have been a number of questions from the Congress on problems with financial management in the region. We have taken several steps to address these problems. Our primary area of emphasis has been host country accounting practices. Our staff has reviewed 182 accounting systems over the past year. Where deficiencies were encountered, either they have been corrected or the activities were suspended or terminated. We also have trained a large number of host country accountants and managers to maintain accounting systems acceptable to us and to improve their management of projects. And we have taken steps to upgrade the skills of our own people in project monitoring and management to ensure that our mission staffs have a thorough understanding of their responsibilities for ensuring the proper use of A.I.D. funds. As a result of these efforts over the past year, I am convinced that the situation is much improved and that the actions we have initiated will ensure significant improvement in the management and accountability of A.I.D. funds.

American Schools and Hospitals Abroad (ASHA). The ASHA program will permit assistance to schools and hospitals sponsored by private U.S. non-profit organizations which serve as demonstration centers for American ideas and practices in education and medicine. We plan to give priority to institutions in developing countries that offer the greatest potential for developing human resources, furthering the transfer of technology, and maintaining and improving their own financial well-being. We consider this a valuable program and recognize that Congress also feels it is important, but budgetary constraints and past practice have forced us to hold our proposal to $7.5 million.

International Disaster Assistance. The Disaster Assistance program, for which we have requested $25 million for FY 1984, provides for emergency assistance to countries struck by natural disasters and manmade catastrophes, and assistance in disaster prediction and preparedness.

Operating Expenses. For A.I.D. Operating Expenses, we have requested a total of $378.5 million. These funds provide for costs of managing A.I.D.'s bilateral assistance program. They cover the salaries and operating costs of A.I.D./W headquarters and overseas operations. The proposed increase is necessitated by rapidly rising costs overseas as well as the effect of having had to defer some expenditures in the current year as a result of substantial reductions from our requested FY 1983 funding level.

In addition to these specific requests within our development assistance program, I would like to mention two priorities which transcend the individual accounts. One is that of narcotics reduction. Income substitution activities are a major component of U.S. efforts to reduce illicit narcotics and remain one of A.I.D.'s important objectives. We currently have projects in Peru, Thailand and Pakistan that, in part, respond to the Gilman amendment. Additional programs are being devised for Pakistan and Bolivia. We will continue to take advantage of targets of opportunity, but we must be mindful that our ability to achieve our narcotics reduction objective is in the hands of the host government. Without a strong commitment to enforce existing bans, there is little we can do. I can assure this committee that we will continue to discuss this subject at the highest levels as part of our policy dialogue initiative. We will continue to work with host governments and design and implement projects that address development needs in order to facilitate host government enforcement.

A second important priority of our overall program is that of women in development. The Agency has, for the first time since the establishment of the WID Office in 1974, a formal policy paper which spells out how the concerns of women in the developing countries are to be integrated into A.I.D.'s program. A primary objective of our women in development policy is that it is critical now for A.I.D. to move beyond its initial activities and take an active role and provide leadership in ensuring that women have access to opportunities and the benefits of economic development. Also clearly emphasized in A.I.D.'s new policy is the fact that, while the Office of Women in Development and mission WID Officers will continue to support the Agency's personnel in their efforts to implement women in development activities, the overall responsibility for implementation of this policy rests with all A.I.D. offices and bureaus and in all A.I.D. programs and projects.

In this regard, a new emphasis is underway within A.I.D. to focus on women without isolating them from the mainstream of development. The Agency has begun to move away from doing women-specific projects. Experience has shown that a more effective strategy is to plan integrated projects which includes the role of women in the initial project design to assure balanced economic development. Currently the Agency is giving priority to four kinds of women in development activities -- those which recognize the crucial role of rural women in agricultural development and target interventions to their needs; those which train women in practical income-generating skills; those which assess women's needs for technological innovations and encourage adoption of appropriate technologies; and those which strengthen indigenous organizations and groups to enable them to initiate and undertake activities which encourage women to become full partners in development.

Economic Support Fund (ESF).

Our FY 1984 budget request for the Economic Support Fund -- ESF -- totals $2.949 billion. We are also requesting a supplemental appropriation of $294.5 million for the current fiscal year to meet pressing needs for assistance in Lebanon and elsewhere. The ESF program provides economic assistance to help sustain economic and political stability in countries and regions of strategic importance to United States foreign policy objectives.

ESF also supports our development goals in many countries. Peace in the Middle East continues to have the highest priority in the allocation of ESF, with the result that slightly more than one-half of the ESF program, just under $1.6 billion, continues to be allocated to countries in that troubled region. Most of this amount goes to Egypt and Israel, to maintain balance of payments stability, finance essential imports, and in the case of Egypt, to finance development projects which are increasing production, employment, and improving infrastructure and basic services for a wide-spectrum of the Egyptian populace.

ESF is a very flexible form of economic assistance. It can be particularly effective, during the current world-wide recession, in helping developing countries critical to U.S. foreign policy interest which are confronted with severe balance of payments problems and stagnating growth rates. We must remember that economic stability and growth are mutually reinforcing. ESF can provide essential resources for stability and serve to underpin U.S. development assistance efforts and long-term growth.

Whereas the ESF requirements for Egypt and Israel have remained fairly constant, the need for significant amounts of economic assistance to counter the effects of the current economic crisis have greatly increased in a number of strategically important developing countries in Africa, Latin America and the Caribbean, and Asia.

Of particular concern to you, Mr. Chairman, is our supplemental request for Lebanon. I was here before you last summer to testify on our need for emergency disaster assistance funds to handle urgent relief and rehabilitation requirements. Of the $50 million you voted for this purpose in September, we have obligated or firmly earmarked some $41 million, for a variety of relief and reconstruction activities, including grants to UNICEF, the International Committee of the Red Cross, American University of Beirut, Beirut University College, and International College, and most recently to the Lebanese Government for emergency housing repair and for fixing up the telecommunications system. We expect over the next several weeks to obligate almost all of the remaining $9 million which will go for restoring sewer systems, solid waste collection in the Beirut area, and for non-shelter needs of Palestinian refugees.

The advice of this committee was particularly helpful last summer and it is in the same spirit that I request your consideration of our supplemental for Lebanon. The United States plans to devote its aid resources, as part of a World Bank-led multilateral effort, to repair and rebuild vital public services in priority sectors such as water and sanitation, health, telecommunications, electric power, transportation, and construction equipment. Restoration of these services is crucial for the private sector to flourish.

Close to half the additional funds we are requesting, $69 million, will be used to set up a Capital Equipment Fund to allow us to meet high priority reconstruction needs in the public and private sectors. The Fund enables the United States to provide quick-disbursing, easy to absorb assistance, by financing equipment in which U.S. suppliers have a competitive advantage.

Most of the remaining funds will be focused on the priority sectors of water and sanitation ($32 million), health ($11 million), and telecommunications ($15 million). Here, too, all equipment and services will come from the United States. Funds will be used to maximize possibilities for engaging U.S. Export-Import Bank and commercial bank financing in the reconstruction effort.

Other funds will be used for relending by the Lebanese Government at near commercial terms for small businessmen ($10 million), for grants to experienced private voluntary agencies helping economically disadvantaged Lebanese to obtain credit, job skills, health care, and better education ($10 million), and for providing management and planning assistance to the Lebanese Government to improve its ability to use our aid and that of other donors ($3 million).

Our request will serve as a catalyst for other aid and as a stimulus to the Lebanese Government to accelerate the reconstruction effort. We are now fully engaged with the government in planning the detailed commitment of these funds. We will be consulting with the Committee shortly on how we can solve the problems of maintaining program commitments to Lebanon pending prompt authorization and appropriation of supplemental funds.

Trade and Development Program

The Trade and Development Program -- TDP -- has proven an effective mechanism for helping foster development in the Third World and, at the same time, assisting in the improvement of this country's competitive position in world markets which helps increase U.S. exports. TDP helps U.S. firms get involved in the early planning stages of development projects in order to improve their position as potential participants and suppliers of project requirements. It focusses on projects involving technologies in which we have a comparative advantage, including high technology and specialized U.S. commodities and services. In FY 1982, TDP financed 46 projects, potentially leveraging more than $412 million in U.S. exports. Our request for FY 1984 is $22 million. The proposed increase is based on last year's demand for TDP assistance in excess of $25 million and will allow us to increase our support for development in a way that helps expand U.S. exports.

PL 480

Food security considerations have played an increasingly important role in international discussions of food and hunger. PL 480 food aid is a valuable development resource for enhancing food security and reducing malnutrition. It also serves to augment local production in the developing countries -- provided that it is made available under conditions that support rather than discourage domestic food and agricultural production.

In emergencies or periods of dire food shortages, international food assistance -- led by the United States as the world's largest food aid donor -- plays a vital role in assuring food security. PL 480 food commodities also augment domestic food sales and distribution programs and may be used to help build national food reserves. Local currency generated from these food sales provides financial resources to assist with the development of food and agricultural institutions and infrastructure.

We seek to improve the impact of both PL 480 commodities and local currency proceeds on food and agricultural development, including increasing their integration with other U.S. bilateral financial and technical assistance at both the policy and project levels. PL 480 resources are also programmed to support the efforts I have mentioned to improve country policies, develop human and institutional capacity and enhance the role of the private sector in food and agricultural development.

For FY 1984, we are proposing a PL 480 program totaling $1.522 billion. This includes $872 million for Title I concessional sales and $650 million for the Title II program. Taking into account anticipated receipts of $470 million from the sale of commodities, this would require appropriation of $1.052 billion. Of the Title I allocations, about 83 percent would be directed to the low-income countries. Approximately 22 percent of the $400 million available for commodities in the Title II program would be designated as an unallocated reserve for refugee feeding and emergency programs. The remaining 78 percent will be used for regular programs of U.S. voluntary agencies and the World Food Program, as well as several government-to-government programs.

Multilateral Assistance

Up to this point, I have emphasized the importance of our bilateral programs in meeting our developmental, political and economic objectives, but given the enormity of the problems facing the developing nations, overcoming them will require the joint efforts of industrialized nations, multilateral and international organizations, and the efforts of the developing countries themselves.

Therefore, I believe that our contributions to the various multilateral assistance efforts in which we participate are every bit as important as are our bilateral efforts.

International Fund for Agricultural Development (IFAD). For the International Fund for Agricultural Development -- IFAD -- of which I serve as the U.S. Governor in my capacity as acting Director of IDCA, we are proposing an appropriation of $50 million. This amount would represent our second payment against a commitment of $180 million for the first replenishment of IFAD, as authorized by Congress in Fiscal Year 1982. In making this request, we have carefully considered the conference report on the FY 1983 continuing resolution concerning the appropriate source of funding for IFAD and have concluded that it should be maintained as a separate line item, rather than being included within the International Organizations and Programs account as it was this year.

IFAD serves two critically important functions. It is the only funding organization which directs its resources solely to the concerns of small farmers and seeks to increase agricultural productivity in poorer countries. It is also the only international development agency in which OPEC and the Western industrialized nations have come together to provide resources on what approaches a basis of equality.

While we continue to share the Congressional concerns about certain aspects of IFAD's operations, we believe that it is in fact focusing effectively on the kind of lending activities for which it was established. For this reason, and because the United States was instrumental in bringing IFAD into being as a result of the World Food Conference of 1974, our continued strong support is extremely important so that this still relatively new organization can consolidate its progress to date.

Multilateral Development Banks. With respect to our proposals for funding commitments to the multilateral development banks, when this Administration came into office we had a number of questions about the role of these banks. We undertook an assessment of our participation in them, on which we consulted with the Congress. That assessment concluded that the multilateral banks can make an important and cost-effective contribution to development which is supportive of U.S. interests. It also found that MDB activities are complementary to bilateral assistance. For example, IBRD Structural Adjustment Lending reinforces IMF programs in helping developing countries to face short-term financial crises and to readjust economic policy to permit future growth. More generally, multilateral banks fund projects suited to their capabilities and larger scale of financing. They also replicate investments which have been tested on a more limited and experimental basis through bilateral programs.

The Assessment did conclude, however, that there are some areas in which improvements could be made in the way the multilateral banks work. For example, they could serve to a greater extent as bridges to private capital markets by expanding private co-financing, emphasizing market incentives, and encouraging the indigenous private sector. We would like them to give greater consideration to the effectiveness of borrower country economic policies. They also should adopt more consistent policies for maturation and graduation of countries receiving multilateral resources.

The United States has vigorously advocated that the Banks adopt these principles and the MDBs have responded positively in a number of instances. Let me cite some of these. The

Inter-American Development Bank and the Asian Development Bank are considering proposals for equity financing facilities. The World Bank is working on a proposal for a facility to provide for multilateral insurance for private investments and has recently agreed on a new more consistent graduation policy to move countries above a certain income level gradually away from dependence on public resources and toward greater reliance on private capital markets. The Inter-American Development Bank has adopted an improved policy on public utility tariffs to ensure more complete cost coverage for projects it funds.

We will continue to look to additional improvements in multilateral bank policies and lending programs, particularly during the course of negotiations for replenishments. This was the case during recent negotiation of the African and Asian Development Funds. Current negotiations to generate new resources for the Inter-American and Asian Development Banks include a number of policy issues of interest to the United States. As we move further into IDA-VII negotiations, our interest in the reforms advocated in the Assessment will loom large.

At the same time, in order for the United States to succeed in promoting improved bank lending policies, we must be seen as clearly prepared to meet existing commitments on a timely basis. Accordingly, the Administration is making every effort to meet current commitments to the IDA-VI replenishment, as attested by our request for a $245 million FY 1983 supplemental appropriation which, along with our FY 1984 request of $1.095 billion, will complete our commitment.

International Organizations and Programs. Just as the multilateral banks play a critical role in meeting the capital needs of developing countries, the programs of the international organizations, particularly the United Nations

Development Program, are important to meeting their technical assistance and training needs. And just as we have had some concern about improving the effectiveness of the banks, we have also had concerns about some of the UN programs. There has been a tendency for budgetary increases in some of these programs to outstrip donor interest and financial support, and in some programs there has been a resulting thinness or lack of focus. Despite these reservations, though, international organizations remain extremely important to us. They provide essential technical and training help, often in sensitive areas where recipients may be reluctant to depend on bilateral assistance, and often on a broader range of problems than can individual donors. They also frequently galvanize attention on critical development problems -- such as UNICEF's current emphasis on the problems of child mortality and the World Food Council's efforts to help food short poor countries develop and implement long range food strategies to meet the needs of their citizens.

For these reasons, the United States remains committed to supporting those international organization programs which are properly focused, which are not excessive in scale and which remain insulated from political and ideological debate. We are upgrading our capability to work with them to improve program quality and hold down budgetary demands.

The effectiveness of all development assistance also depends on close understandings among the donor nations themselves. New, intensified efforts to have closer cooperation with other donor nations, OPEC countries as well as the traditional donors, are underway.

What we are trying to achieve by this whole process is better use of all resources going to development - our own bilateral assistance, resources provided by multilateral and international organizations, financing coming from other bilateral donors, private capital flows, and the resources developing countries themselves invest in their own development programs. This objective requires better mutual understanding about critical policy issues and the best approaches to the range of development issues -- from improving agricultural production to organizing better low-cost health delivery systems -- and means by which donors and recipients can best work together so that each one's efforts reinforce the others'.

Management Initiatives

Because I believe that effective implementation of the foreign assistance program is at the heart of any measure of success in our development efforts, I would like to conclude with just a few words about some of the management initiatives which I have undertaken.

During my first two years as Administrator, I have initiated a number of management improvements to ensure that A.I.D. makes the most efficient use of its limited resources, both monetary and staff. These initiatives have been focused on three areas: program implementation, personnel management and internal work processes.

In the program implementation area, we recognized quickly that the amount of authority delegated to the field did not reflect the missions day-to-day program management responsibility and obvious first-hand knowledge of host country needs. Through the increased authority to approve and amend projects that we have granted them, mission staff now can act more quickly and efficiently in implementing our programs overseas.

Another early step we took was to conduct a portfolio review of all of A.I.D.'s ongoing projects. This is now a continual process with an annual report to me on what is being done about poorly performing projects. We believe that such a review encourages tigher project monitoring and prompt revision or termination of off-schedule projects.

A related effort is the semi-annual review of the performance of A.I.D. contractors. This is also a continual review which we believe encourages early actions to correct or replace poorly performing contractors so that projects are not jeopardized by such performance.

Because of A.I.D.'s historic reliance on contractor resources to carry out its programs, we have initiated a review of the policies and regulations governing our procurement to determine if options are available to shorten the time required by these processes. I expect the results from the review to be on my desk by April 30. We are hoping for some real time-savings for both prospective contractors and A.I.D. staff.

While I'm pleased with what we've done, or started to do, to improve our program implementation, I've established an Implementation Task Force to take an overall look at all areas of implementation and make recommedations for further improvements by September, 1983.

The effort I'm most proud of in the personnel management area is the one to reduce our direct-hire staff to OMB's ceilings without a reduction-in-force. By spreading the staff reductions over a five-year period and concerted efforts by all of our managers, we have avoided a time-consuming and demoralizing process. Steps to improve the quality of our staff have included the development of the first Agency five-year workforce plan which permits targeted recruitment, training, career counseling and placement. We have also increased the accuracy in appraisals of employee performance and encouraged subsequent actions to reward highly productive employees, improve marginal employees and relieve from duty consistently poor performers. Finally, we are presently revamping our training programs to encourage career development.

At the same time that we are trying to improve staff quality, we are also introducing state-of-the-art technologies to increase staff efficiency. These include the application of automation in the work environment and the introduction of other technologies in such areas as telecommunications, space modularization, and records management.

One of the key management initiatives for FY 1983 is the integration of Management-By-Objective into A.I.D.'s programming process to form a more disciplined system of management planning and control. While I've set a number of program and management objectives for the Agency, there has been no systematic way to track the progress toward meeting them. The integration of MBO into our current processes will mean that A.I.D.'s major objectives will be issued at the beginning of each fiscal year with bureau, office and mission objectives developed to key into them. Progress reporting will occur in meetings with me or my Deputy for those offices in A.I.D./W and will be incorporated as part of the Agency's programming documents for the field. I believe that such an integrated system will ensure that our staff focuses on the Agency's major objectives and that progress in meeting those objectives can be tracked.

AFRICA

STATEMENT OF FRANCIS RUDDY, ASSISTANT ADMINISTRATOR

Senator **Kasten**. Why don't we start with Frank. If you would like to make a couple of brief comments.

Mr. **Ruddy**. Thank you very much, Mr. Chairman.

We find that the goal of the Africa Bureau specifically is to——

Senator **Kasten**. You will have to speak up a bit because people in the back of the room can't hear.

Mr. **Ruddy**. What we propose is that we will use all the resources available to us, developmental assistance, economic support funds, and Public Law 480 food resources, to combat hunger, disease, and poverty while at the same time helping the Africans achieve equitable economic growth.

We plan to do this basically under three general subsections to support the adoption of national policies which encourage the Africans to expand agricultural products, especially food crops, the development of self-sustaining institutions that respond to the agricultural, health, and educational requirements of the Africans themselves and development of self-sustaining private sectors in these countries.

When we singled out food production as our overall priority, we did so with the knowledge it is a priority of the Africans themselves. This gives us an opportunity to work together for what is a common goal.

There are lots of problems within Africa. The roads are underdeveloped or in need of repair. The institutions that are required for growth do not exist, the work force is largely untrained; to some degree this explains the lack of economic progress.

There are also external and uncontrollable forces such as recession, and markets have dried up for many of Africa's vital exports.

The No. 1 cause of the economic failure to grow in Africa is unrealistic government economic policies. It is for that reason that the Africa Bureau is giving increased emphasis to policy change, particularly in the area of agricultural, administrative, and pricing policies that will emphasize incentives to stimulate production.

The Economic Support Fund [ESF] has been particularly effective in this policy dialog. In Zimbabwe, for example, we have indications that reforms are taking place. In Somalia there is a move by the government to get away from state monopolies and free up the agricultural sector to produce and to market and basically to increase production.

PUBLIC LAW 480 ASSISTANCE

The Public Law 480 assistance is also very important in this policy dialogue, and we have made a sustained effort to coordinate all these resources available to us for maximum effect.

We had a severe problem, as you know, Mr. Chairman, with the number of donors in Africa. We have more than 50. The problem is not only to coordinate them, but to make sure we don't go in different directions.

I think we have made some progress there through organizations like the CILSS, which is an organization working in the Sahel, and

Cooperation for Development in Africa [CDA], an organization which has a number of European donors and ourselves, and the Canadians as well. CDA is not a bureaucracy, but it works at focusing our assistance.

MANAGEMENT PROBLEMS IN SAHEL

We are not at all satisified with the management in the Sahel in the sense that it is not something that we would like to hold up to the world as a model for what management should be, but we think we have made substantial progress, and we think we have made it very clear to the Sahelians themselves that we mean business here.

Finally, on the point that Peter mentioned, on the overall economic crisis in Africa, the Africa Bureau along with the State Department, Treasury, our governors of the IMF and World Bank have gotten together so that we can have a focused approach and speak with one voice on the especially severe economic problems facing African countries, such as Sudan, Kenya, and Zambia.

That procedure has met with some success in Sudan. We are sanguine about the results in Kenya and Zambia.

I will stop here, Mr. Chairman.

Senator **Kasten**. Thank you.

[The statement of Mr. Ruddy follows:]

PREPARED STATEMENT OF FRANK RUDDY
ASSISTANT ADMINISTRATOR FOR AFRICA
AGENCY FOR INTERNATIONAL DEVELOPMENT

I am here today to outline the objectives of the U.S. aid program to Africa. The budget presented to you is an integrated foreign assistance budget. We intend to use Development Assistance, Economic Support Funds and PL 480 food resources to combat hunger, disease and poverty while at the same time assisting African nations achieve equitable economic growth.

These programs seek to reach these objectives by supporting:

(1) the adoption of national policies which encourage Africans to expand agricultural production, especially food crops;

(2) the development of self-sustaining institutions that respond to the agricultural, health and educational requirements of Africa nations; and

(3) the development of self-sustaining private sectors in these countries.

There are no easy answers. African economic performance has seriously deteriorated. Seventy percent of the people in Africa depend on agricultural products for their livelihood. Agricultural production has grown by less than two percent per year, a rate that is .8 percent less than the population growth rate. Africa also has the highest infant and child mortality rates and the lowest life expectancy of any region in the world. But there is cause for optimism. Africa does have the capacity to produce food at home. Africa has tremendous economic potential. Millions of acres of land can be brought under irrigation. Women provide the major share of agricultural labor in Africa, and effective integration of women into economic and social development can increase agricultural productivity. School enrollment that now includes 63 percent of primary school age children and an increased life expectancy from 39 to 47 years in the last 20 years are indicative of a potentially more productive human resources base. Maintaining and expanding these gains in health and education will require expansion of the directly productive sector and tax bases of the African economies. We and the Africans know this. More importantly, increased food production is not only our priority, it is a priority for the Africans themselves, and that gives us an unprecedented opportunity to work together for a common goal.

Internal problems such as underdeveloped African infrastructure, a lack of institutions and an untrained work force to some degree explain low income levels in Africa. External and uncontrollable forces such as the global recession are another part of the explanation. But the number one cause of Africa's inability to grow is unrealistic government economic policies. These are policies like overvalued exchange rates that encourage imports and discourage domestic production; agricultural pricing policies that undervalue agricultural products; artificial controls on agricultural necessities like fertilizer or seeds by inefficient marketing boards, and restrictions on the sale of farm products. These kinds of policies shackle productive energies, dry up incentives, and slow the pace of technical change in what should be the most dynamic growth sector throughout much of Africa and, unaltered, will continue the economic stagnation and decline in Africa. The need for policy reform is emphasized by projections of the World Bank that even with substantial global economic recovery, Africa will struggle to maintain current living standards during the 1980s.

That is why the Africa Bureau is giving increasing emphasis to policy change. Improved agricutural, administrative, and pricing policies emphasing incentives will stimulate production. They will also facilitate the adoption of improved production techniques which make traditional assistance programs more effective. For example, A.I.D. has always managed projects in agricultural research, extension and credit. We found that although high yielding seeds might provide the technical basis for increased production, actual increases depend upon the availability of fertilizer and price levels which make use of fertilizer and improved seed economically sensible for the farmer.

The Economic Support Fund (ESF) has been effective in the policy dialogue. The dialogue demands discretion and realism about the resources and length of time required to bring about changes. It is important to remember that policy change questions must be considered in the political context of each country. Even so, policy improvement and greater reliance on market mechanisms, particularly in agriculture, are occurring with increasing frequency. By way of example, in Zimbabwe, the Government is effecting reforms to encourage the creation of private rural savings organizations which will mobilize resources for rural businesses and small farmers. In Somalia, the authorities of the state trading monopoly have been trimmed. Private importers are now allowed to import basic goods. The state agency is left to import goods only for the public sector entities such as the military and schools. The Government has reduced the role of its marketing monopoly. Farmers may now sell to private traders at open market prices and are receiving two to three times the official price for their crops. The Government has closed down four state enterprises, including those handling livestock, building materials, textiles and fish. Both of these ESF program countries are experiencing substantial development benefits as a result of these changes.

PL 480 assistance is important in dealing with Africa's growing food crisis and increasing inability to finance additional commercial food imports. Title I and Title III programs provide a good mechanism for encouraging policy change, as long as we make sure these programs do not become disincentives to production.

The development problems and fiscal crises on the continent demand close coordination among the more than 50 donors currently in Africa to avoid duplication and conflict. A.I.D. coordinates its efforts on three levels: with other donors, with African country groupings and with other U.S. Government agencies.

The CDA (Cooperation for Development in Africa) and the Club du Sahel are representative of donor coordinating efforts. During 1982 A.I.D., working with Britain, Belgium, France, Canada, Germany and Italy, reoriented agricultural research to focus on small holder farming systems. We know that small farms produce more per acre than large farms. Our research, therefore, stresses productive technology for the small farm holders. This year programs will be developed to strengthen national research systems in five separate ecological zones. The CDA health sector committee, chaired by the U.S., is now implementing an Africa-wide project to combat childhood communicable diseases which are responsible for much of the mortality among Africa's children. A.I.D. continues to work closely with African groups such as CILSS (the Permanent Institute Committee for Drought Control in the Sahel), ECOWAS (the Economic Community of West African States) and SADCC (the Southern African Development Coordination Cooperative). With the other Club du Sahel donors, we are supporting the establishment of a CILSS organization to collect, analyze and disseminate weather and hydrological data for the Sahel. Much improved land-use and environmental decisions for increasing production will ultimately result from the effort.

On the subject of the Sahel program, we have taken action to improve program and financial management. In the past year we have reviewed accounting systems, trained personnel in financial management, and carefully monitored the program. I am keenly aware of the Congress' concern about the Sahel program, and I want to reassure this Committee that I take the need to continue improving program management very seriously. I have, for example, determined that we must expand the A.I.D. Inspector General's audit staff in West Africa to enable more rapid and thorough coverage of the Sahel program. In one case, e.g., Mali, I have cancelled an ongoing project because of deficiencies in administration of the activity. We are continuing to review our own staff capabilities to determine where additional personnel are required to improve financial management and we are undertaking efforts such as the Sahel Financial Management project to increase the capacity in the host government institutions themselves.

The Africa Bureau and its counterparts in the State Department and Treasury, and the U.S. Governors at the IMF and IBRD, have formed a working group to analyze the economic crises affecting several key countries in Africa so that the U.S. Government speaks with one voice on these important issues. This has already led to substantive improvement in assistance in Sudan, and we are optimistic about Kenya and Zambia.

We believe that reinforcing the traditional assistance program with improvements in macro economic and sector policies of the African countries along with improved donor coordination can accelerate the development of Africa's considerable resources. This effort can also lead to higher levels of growth and a lasting improvement in the quality of life of African populations.

In FY 1984 we are proposing that the United States provide $963.7 million in assistance to Africa for development and country assistance and PL 480.

The $350.3 million in Development Assistance includes:

- $149.6 million for agriculture and rural development;
- $ 30.2 million for health activities;
- $ 33.2 million for education and human resources development;
- $ 23.7 million to address selected development problems, primarily energy and the private sector;
- $ 10.6 million for population planning; and
- $103.0 million for the Sahel, primarily for agriculture (food production and environmental reclamation), health, population and related training.

In addition to Development Assistance we are requesting $409 million in Economic Supporting Funds, primarily for programs in Southern Africa and the Horn of Africa.

In PL 480 we are requesting $204.4 million in PL 480 with $132.5 in Title I and $71.9 million for Title II.

LATIN AMERICA AND THE CARIBBEAN

STATEMENT OF OTTO J. REICH, ASSISTANT ADMINISTRATOR

Senator KASTEN. Otto.

Mr. REICH. Thank you very much.

The Latin America and Caribbean Bureau's requested fiscal year 1984 budget is for a continuation of the programs of the first 2 years of the Reagan administration. We have continued emphasis on the Caribbean Basin countries, not only because of the great need for economic assistance that exists in the region, but also because of the importance of the region to U.S. national security.

Our approach, we believe, is a balanced one. We continue our emphasis on so-called basic human needs, and, therefore, development assistance levels continue to increase modestly.

The Economic Support Funds, which have increased more dramatically, are focused on the productive sectors of society. We believe the private sector represents the best hope for the growth that we seek to be resumed in the region. We place this emphasis on the Caribbean Basin because of the reasons which President Reagan outlined when he sent the Caribbean Basin Initiative to the Congress.

In addition to the Caribbean Basin, we have programs in South America for which we are also providing attention. Most of the countries, that is three-quarters of the recipients of the Caribbean Basin and South America programs, are democracies. Our goal is to help create equitable growth within the framework of democratic freedoms.

We are continuing to provide attention not only to the economic problems, but to the social and political developments of the countries in the region, including support for the President's democracy initiative.

In brief, Mr. Chairman, that is what we are trying to do with our requested fiscal year 1984 program.

Senator KASTEN. Thank you.

[The statement of Mr. Reich is as follows:]

PREPARED STATEMENT OF OTTO J. REICH

ASSISTANT ADMINISTRATOR
FOR LATIN AMERICA AND THE CARIBBEAN
AGENCY FOR INTERNATIONAL DEVELOPMENT

Mr. Chairman, and Members of the Senate Appropriations Subcommittee on Foreign Operations, I am pleased to have this opportunity to discuss with you the fiscal year 1984 program of the Latin America and Caribbean Bureau of the Agency for International Development.

The Economic Crisis

The countries of Latin America and the Caribbean are experiencing their most severe economic crisis since the Great Depression of the 1930s. The regional gross domestic product (GDP) fell by four-tenths of one percent in 1981 and by nearly one percent in 1982. This has meant a decline of close to six percent in per capita GDP over the last two years. A further decline is expected in 1983 as commodity export prices remain low and heavy debt servicing requirements -- even after rescheduling -- need to be met. Unemployment rates are rising to alarmingly high levels, and the incidence of poverty is growing.

Before going into this economic crisis in detail, I want to take a moment to step back from this immediate problem and look at Latin America in a longer-term perspective. Viewed over the last two decades, development progress in the region has been quite impressive.

Until the current crisis, the economic growth of the region had been unprecedented in its history, with per capita incomes nearly doubling in real terms between the late 1950s and 1980. Literacy rates rose from 65 percent in 1960 to 78 percent in 1980. Infant mortality fell over the same period from 80 to 46 per 1,000 births, while life expectancy rose from 56 to 64 years. The latter is a level we did not attain in the United States until the 1940s. In sum, over the long haul, the people and governments of the Latin American and Caribbean region have been able to improve significantly the quality of life in those countries. Our programs have made an important contribution to this progress.

Over the next several years, however, this kind of steady forward movement is seriously threatened by economic problems of an immediate and critical nature. Some of these problems can be traced to unwise government policies or to domestic political turmoil, but the major factors have been adverse trends in the world economy. Slow growth or stagnation in the industrial economies has driven down sharply the prices of the primary commodities exported by Latin American and Caribbean countries and has lowered the demand for the region's manufactured exports. Petroleum-importing countries suffered from a second sharp rise in prices in late 1979 and early 1980, and while these pressures have been partially relieved by recent price declines, petroleum-exporting countries such as Mexico and Ecuador -- not expecting petroleum prices to fall -- have joined the ranks of the countries with troubled economies. At the same time, Latin American and

Caribbean countries have experienced sharply rising debt-service obligations, partly because of the heavy borrowing they did in the mid-1970s to cushion the effects of the first oil shock, and partly because of the unexpectedly high interest rates prevailing in the early 1980s.

Recovery from the crisis is likely to be slow. The Inter-American Development Bank estimates that regional GDP will grow at an annual rate of only 2.8 to 3.1 percent from 1982 through 1986, depending on how well the industrialized countries manage their own recovery. This is below the average growth rate of 5.8 percent achieved from 1970 through 1981, and it is barely positive in per capita terms. Social and political unrest is visibly growing as economic conditions worsen. Faced with this crisis in our hemisphere, the United States must make a determined effort to uphold and strengthen pluralistic, democratic values so that popular discontent will not be channeled into directions inimical to our interests. Since the countries of the region now find it more difficult to meet their development objectives by borrowing in private capital markets -- and some of them had little access to these markets even in better times -- the United States must be prepared to play a greater role to help reverse falling output, rising unemployment, and the spread of poverty.

The situation is especially grave in several countries of key importance to the United States:

-- In El Salvador, GDP has declined by about 25 percent since 1978 and unemployment has risen to 30 percent or more. Violence has contributed to factory closings, disrupted commerce and public services, reduced agricultural production, and dislocated thousands of people. The adverse effects of low commodity export prices and a cut in the country's coffee export quota have been aggravated by natural disasters -- a major earthquake, severe drought, and heavy flooding. El Salvador has adopted an economic stabilization program supported by the International Monetary Fund, but recovery will continue to be difficult until the violence is brought under control and the world economy revives.

-- Costa Rica, a stronghold of democracy in the region, has experienced a decline in its GDP of more than 10 percent in the last two years. World economic trends have hit this country especially hard and have exposed the dangers of heavy reliance on external borrowing and large public sector deficits. Costa Rica's currency has depreciated sixfold, and its inflation rate exceeds 100 percent. Costa Rica has also adopted an IMF-supported stabilization program, but its debt-service obligations will be so burdensome -- even after the anticipated rescheduling -- that its development effort will be hampered for years to come.

-- Honduras, the poorest country in Central America, has suffered less than its neighbors from political violence or inappropriate economic policies. Still, its net foreign exchange reserves became negative at the end of 1981, and its economic growth rate may well have turned negative in 1982. Like Costa Rica and El Salvador, Honduras has adopted an IMF-supported stabilization program, a major objective of which is to improve the public finances by raising revenues and controlling expenditures. Economic recovery is expected to be slow, as demand remains weak for the country's major exports and the payoff on heavy recent investments in infrastructure will not come until late in the decade.

-- In Jamaica, the long economic decline from 1973 to 1980 has been halted, due in large measure to implementation of a three-year stabilization program with strong financial support from the IMF, the World Bank, and the U.S. Government. Real GDP, however, is still about 20 percent below its level in 1972. Prime Minister Seaga's government has adopted a private-sector, export-led growth strategy, but the level of new domestic and foreign investment has been disappointing. Economic recovery has been weak because of foreign exchange shortages, arising from the continued weakness in the world demand for Jamaica's bauxite exports, as well as infrastructure bottlenecks and the difficulty of dismantling bureaucratic obstacles erected by previous governments.

-- The Dominican Republic has been hard hit by declining earnings from sugar and other exports. Since the public finances still depend heavily on foreign trade, budget revenues have suffered and the deficit has increased. The government has just received significant financial assistance from the IMF in support of a three-year stabilization program that will reduce the balance-of-payments and budget gaps; but additional measures are needed to accelerate the development of nontraditional exports.

-- In Peru, the balance-of-payments shifted from surplus to deficit in 1981, and the country has been forced to divert resources from development activities in order to combat a persistent rural terrorist problem. Although the government has adopted generally healthy economic policies, supported by IMF assistance over a three-year period, its policy options have been narrowed by international credit uncertainties arising from the financial crises in a number of large debtor countries.

U.S. Interests in Latin America and the Caribbean

The importance of Latin America and the Caribbean to our economic and security interests has grown as our economy has become more dependent on world trade. United States exports to the region in 1981 reached $42 billion, more than to any other market besides Western Europe. But in the first six months of 1982, Latin American and Caribbean imports from the United States were running 17 percent below their 1981 level. The economic crisis in the region has thus resulted in a significant loss of jobs and income for U.S. workers, factories, and farms. Returns on the $39 billion in U.S. investments in the region have declined, and many U.S. banks are concerned about the safety of their substantial loans to Latin American and Caribbean countries. We must worry, too, about the stimulus that economic stagnation or decline in the region gives to illegal migration and illegal shipments of narcotics to the United States.

The geographic proximity of Latin America and the Caribbean makes it vital to our national security. We depend on unimpeded use of the Panama Canal and the sea lanes adjacent to North America, as well as access to Mexican and Venezuelan petroleum and other raw materials produced by our neighbors to the south. The region also is important to our efforts to limit the spread of nuclear weapons and the operations of international terrorist groups. The countries of Latin America and the Caribbean are playing an increasingly prominent role in hemispheric organizations and international fora, and we would like them to share our concerns on the issues acted upon by these bodies.

Our concern for political stability and the strengthening of democratic institutions in the region is being heightened by the economic crisis. All of Central America now faces threats, external as well as internal, to the democratic traditions we want to see maintained or built. The economic crisis makes resolution of the political conflict in El Salvador even more difficult and has required us to increase our assistance to keep that country moving in a democratic, pluralistic direction and thus prevent an unacceptable political outcome at either extreme. In South America, enlightened, pragmatic, democratic regimes in Ecuador and Peru have been threatened by the social and political discontent produced by economic difficulties, and the new civilian government in Bolivia is likewise threatened. In the Caribbean countries, discontent is bound to rise if economic recovery continues to be slowed by depressed world market conditions for sugar, bauxite, and other commodities.

The poorest groups in these countries are particularly threatened by the effects of economic stagnation and political turmoil. Fiscal problems can interrupt the extension of government programs in the social services such as basic education for the next generation and public health to poor rural areas.

Economic stagnation prevents the creation of jobs. Unless the poorest groups have the opportunity to find employment that is productive, they can have little hope of substantially improving their economic situation.

The U.S. Response: The Caribbean Basin Initiative

In response to the growing political and economic crisis in the region, President Reagan proposed a Caribbean Basin Initiative (CBI). The CBI was conceived and has been implemented as a multilateral effort, in which the United States has joined with Mexico, Venezuela, Canada, and Colombia to increase bilateral assistance to Caribbean Basin countries in support of policy reforms needed for economic stabilization and recovery.

The U.S. contribution to the CBI was devised as an integrated package of trade, aid, and investment activities to facilitate the creation of an economic environment conducive to the efficient exercise of private entrepreneurship and self-help activities.

The initial aid component of this package was approved by the Congress in September 1982 as a $350 million supplemental appropriation of Economic Support Funds (ESF). We anticipate that an additional $300.4 million of ESF resources, $234 million of Development Assistance, and $140 million of P.L. 480 resources will be available for Caribbean Basin countries in FY 1983 under the continuing resolution and from the proposed ESF supplemental appropriation. In FY 1984, we are requesting another $398 million of ESF, $250 million of Development Assistance, and $144 million of P.L. 480 resources for these countries. The ESF resources -- only a small fraction of what is needed given the magnitude of the economic crisis -- are being used in support of overall economic stabilization and recovery programs, often undertaken with additional assistance from the IMF. These programs commit the countries of the Caribbean Basin to reforms needed to ensure a more efficient allocation and a more productive use of their resources, in order to achieve a more rapid economic recovery, improve their capacity to provide productive employment opportunities, and generate the resources needed to better satisfy the basic human needs of their populations.

It is particularly important for U.S. interests that ESF assistance to El salvador be increased in both FY 1983 and FY 1984 from its FY 1982 level. Presently anticipated bilateral and multilateral assistance is insufficient for the government of El Salvador to simultaneously defeat the guerrilla insurgency, meet its stabilization program targets and provide the resources needed in agrarian reform and other priority areas in order to achieve political and social peace without an extremist "solution." Without adequate external resources, the probability increases that such an undesirable -- indeed, unacceptable -- outcome will occur.

Participation by the United States in stabilization and recovery efforts in Caribbean Basin Countries is especially important for strengthening private-sector confidence. This, in turn, is crucial for increasing the volume of commercial-bank lending, suppliers' credits, and direct foreign investment, as well as for stimulating a return of domestic capital which has left the region.

U.S. assistance will be concentrated in countries which demonstrate a willingness to undertake serious economic policy reforms, both to encourage private-sector production and to increase the efficiency of public-sector programs. We are actively engaged in policy dialogues with the countries of the region to help identify obstacles to more efficient production of goods and services and to offer our assistance in implementing measures that will remove these obstacles. Both Development Assistance and ESF resources will be used to stimulate agricultural and industrial production and employment, especially in the private sector. P.L. 480

resources will also be integrated with development activities in these areas.

These recovery programs are essential to our long-run objectives of meeting the basic needs of the population of these countries. Rapid growth in productive employment is one of the two keys to reaching the poorest sectors of society in these countries. It can only be achieved through economic stabilization and improved economic policies, both of which are supported by our assistance under the CBI. The second key to reaching the poor is extension of basic services such as education and public health. Unless growth is restored, governments will be faced with cutbacks in such programs. Over the longer term, only rapid growth can provide the tax base that can support continued expansion of social programs to all segments of the population, particularly to remote areas.

The two other components of the U.S. contribution to the CBI -- the trade and investment measures -- have not yet been enacted. These measures would greatly assist the economic recovery of the Caribbean Basin countries. This, in turn, would strengthen our own economy. A greater capacity to import on the part of the Caribbean Basin countries means more production and jobs for U.S. factories, farms, and service industries.

South America and LAC Regional Programs

Outside the Caribbean Basin, the United States will continue to support the efforts of Ecuador and Peru to cope with their growing economic problems within the democratic frameworks they reestablished in recent years. While ESF resources have been limited to the Caribbean Basin countries, our development assistance support for Peru and Ecuador has helped them undertake the difficult long-term efforts needed to improve the well-being of the poorer members of their populations. The return of civilian government in Bolivia -- reflecting the will of the Bolivian electorate as expressed in the 1980 elections -- provides us an opportunity to support efforts to overcome the even more serious economic problems in that country and to suppress an illegal drug industry that has reached alarming proportions.

A.I.D. will continue its support for activities having a regionwide impact through the LAC Regional program. Under this program, A.I.D. tests promising development initiatives for future application and supports such organizations as the American Institute for Free Labor Development, the Latin American Scholarship Program of American Universities, Solidarios, the Partners of the Americas, the Inter-American Institute for Cooperation on Agriculture, and the Inter-American Institute of Human Rights in their activities throughout the region.

We will continue to work throughout the LAC region toward our principal long-range objective: the establishment of self-sustaining, broadly based equitable growth within a democratic framework. Therefore, A.I.D.

will strengthen its programs in institutional development, technology transfer, and participant training to improve the performance of the productive economic sectors and to achieve a wider distribution of the benefits of production through capital-saving technology, improvements in the administration of essential public services, and use of private market forces. We will also participate actively in the worldwide efforts of this Administration to support democracy in the developing countries. As part of this initiative, we intend to support several activities in the region, such as an inter-American center for electoral advice and promotion; a regional rural newspaper for small-scale farmers, and an adult education radio program in Central America; programs to develop and strengthen citizen action organizations; an inter-American community leaders exchange program; and an expanded number of scholarships to enable Latin American and Caribbean faculty and both graduate and undergraduate students to study in the United States.

Our increasing emphasis on improving government policies and on fostering the role of the private sector in development does not represent a move away from our concern for the poorest groups or for meeting their basic human needs. Rather, it reflects our experience during the past decade which indicates that inappropriate government policies can negate the positive impact of direct assistance to poor people and that efforts to improve the welfare of poorer groups without accompanying economic growth are not sustainable.

The Private Sector's Role in Employment Creation and Poverty Alleviation

Both A.I.D. and the governments of Latin America and the Caribbean have increasingly recognized that a major obstacle to the alleviation of poverty in the region is the sharp increase in unemployment and underemployment resulting from slower economic growth and the inability of import-substitution industries to create as many jobs as had been hoped. Since most import-substitution opportunities have been exhausted, future employment creation will be determined to a large extent by the ability of Latin American and Caribbean countries to promote labor-intensive, export-oriented activities with strong domestic backward and forward linkages. The processing of agricultural products is especially well suited to the achievement of employment objectives, and Latin American and Caribbean countries have the potential to substantially increase their output of these products. Many countries will also find that considerable employment potential exists in assembly industries producing for export, as the example of Haiti has demonstrated over the last decade.

Private enterpreneurs can contribute substantially to the elimination of poverty not only by providing jobs for unskilled and semiskilled workers and by increasing the demand for the output of small farmers, but also by contributing to the tax base of their countries. This helps finance public investment projects to improve infrastructure, as well as meeting the recurrent cost requirements of the substantially increased levels of social services which Latin American and Caribbean countries have undertaken to provide for their citizens in the last decade.

Our support for the private sector and use of market forces will involve a variety of activities, the specific combinations of which will depend on the circumstances of the particular country. In some instances, it will involve crucial items of infrastructure. In other cases, it will require the fostering of institutions to provide stable sources of long-term financing for productive purposes. In still other cases, what is required will be technical assistance to very small producers--women as well as men--to enable them to realize their full growth potential.

At times, our most effective support for the private sector will involve encouragement of governments to reform policies and regulations. Price controls on agricultural products are an obvious deterrent to production in a number of countries. Government monopolies on agricultural inputs that sometimes are unable to get needed products to farmers in a timely fashion, or to provide inputs of good quality, are another example. In other cases, transportation monopolies raise prices to consumers and lower them to producers. By working with governments, we can generate increased output and new opportunities for efficiency in production and distribution by offering the private sector an opportunity to work.

Cooperation with Advanced Developing Countries

Secretary of State Shultz, in his address to the General Assembly of the Organization of American States on November 17, 1982, noted that the advanced developing countries of the Americas "are ready for new kinds of partnership to accelerate balanced development. The issue here . . . is less one of money rather than of dynamism, creativity, and entrepreneurship." President Reagan reaffirmed U.S. support for broadening development ties with these countries during his December 1982 visit to Central and South America. These new ties will consist of:

--building collaborative relationships with key public and private sector institutions;

--promoting the renewal of past relationships between U.S. and Latin American and Caribbean institutions;

--focusing the resources of the Trade and Development Program, the Housing Guaranty program, and our science and technology programs on specific activities in middle-income countries;

--coordinating and promoting trade development activities;

--facilitating access to U.S. Government expertise and technology; and

--increasing professional-level training in the United States.

The FY 1984 Program

The proposed FY 1984 program for Latin America and the Caribbean totals $698.5 million, of which $398 million is from the Economic Support Fund and $300.5 million is functional Development Assistance. Of the combined total, $420.9 million would be provided as loans and $277.6 million as grants. Other proposed U.S. assistance to the region includes $195.2 million in P.L. 480 assistance and $55 million in Housing Guaranties. The attached chart provides a breakdown of funding levels by country and funding source.

Our program will be implemented through 14 bilateral programs and 3 regional programs. Any required increases in staffing levels will be reallocated from within existing OMB approved levels for the Agency.

By functional category, development assistance funds will be allocated as follows:

-- $153.4 million for Agriculture, Rural Development, and Nutrition

-- $13.3 million for Population Planning

-- $17.9 million for Health

-- $42.9 million for Education and Human Resources Development

-- $73.0 million for Selected Development Activities

Under these functional categories, grant funds will be used for technical assistance, training, and support to private voluntary organizations (PVOs). Also, all assistance to Haiti and the small Caribbean islands will be provided as grants. Loan assistance will be utilized for such capital projects as infrastructure development and credit and auxiliary services to the private sector, as well as programs to improve government capabilities in resource management, agricultural research and extension, agrarian reform, rural development, and similar areas.

Let me summarize briefly how our Development Assistance and ESF funds will be used:

Agriculture, Rural Development, and Nutrition programs will seek to increase the capacity of agriculture to produce food both for domestic markets and export crops, thus generating higher incomes and improving nutrition, especially for small-farm families. Another important objective is to stimulate employment opportunities for both men and women in agro-industrial and other off-farm enterprises. New projects in FY 1984 include agricultural resource management projects in Peru and the Dominican Republic; an Agribusiness Expansion project in the Eastern Caribbean Islands and Belize; an aquaculture project in Panama; and projects to strengthen rural financial markets in Haiti, the Dominican Republic and Costa Rica. Ongoing projects, including operational program grants with Private Voluntary Organizations, will support programs in research, extension, forestry, sector policy reforms, and other activities. Complementary programs from the Selected Development Activities Account, particularly those designed to stimulate private investment, will also play an important role in meeting rural development objectives.

Population Planning activities will consist largely of incremental funding for existing programs. A new Population Dynamics project will be initiated in El Salvador.

Health sector activities will emphasize the expansion of low-cost delivery systems, especially for primary care for the rural and urban poor, under successful projects begun in earlier years. A new project to provide health care through existing cooperatives will be undertaken in Bolivia.

Education and Human Resource programs, both new and ongoing, will emphasize rural education and administrative and managerial training to improve the efficiency of both the public and private sectors. New projects include business and management schools in Ecuador and the Eastern Caribbean and an Employment-Related Training project in Honduras.

Selected Development Activities will emphasize the stimulation of private-sector production and employment by eliminating various key bottlenecks in specific countries. New projects include a Private-Sector Investment Fund in

Jamaica, an Export Industrial Development project in Central America, and a Private Sector Industrial Infrastructure project in the Eastern Caribbean Islands. Several regional activities will promote wider regard for human rights and democratic principles and practices, and private voluntary organizations will be supported through new projects in a number of countries.

Economic Support Funds will continue to play an important role in supporting the countries of the Caribbean Basin to undertake sound economic stabilization and recovery programs. Most ESF funds will provide part of the substantial balance-of-payments support needed by Costa Rica, El Salvador, Guatemala, Honduras, the Dominican Republic, and Jamaica. The remainder will be directed at specific project activities in Haiti and the Eastern Caribbean. The foreign exchange made available from ESF resources will be used primarily to facilitate the financing of key imports by productive private enterprises. Local currency generations will primarily support credit requirements of these enterprises. They will also provide some counterpart contributions for key infrastructure projects essential for the long-run growth of the private sector; essential public services; and the activities of private voluntary organizations, cooperatives and similar groups.

Concluding Observations

The continuing sluggishness of the world economy has aggravated the economic crisis in Latin America and the Caribbean. There is growing concern that some countries in the region might default on their external loans and that popular discontent with falling living standards may lead to political violence. These would be tragic developments, both for the people of the region and for the interests of the United States.

Latin American and Caribbean countries are in great need of more external assistance from official sources, as their access to private capital markets has been diminished. Our national interests require that we respond quickly and adequately to this challenge. We will continue to concentrate our assistance on those countries which have demonstrated a willingness to implement sound policies that will lay the groundwork for a sustained, broadly-based economic recovery within a framework of economic and political freedom. The Development Assistance and Economic Support Funds we are requesting, as well as enactment of the remaining portions of the Caribbean Basin Initiative, would greatly facilitate this kind of recovery.

Thank You.

U.S. ECONOMIC ASSISTANCE TO LATIN AMERICA AND THE CARIBBEAN BY FUNDING SOURCE - FYs 1982, 1983 and 1984

($ millions)

COUNTRY/ REGION	DEVELOPMENT ASSISTANCE			ECONOMIC SUPPORT FUNDS			DISASTER ASSISTANCE			PL 480 TITLE I/(III)			PL 480 TITLE II			TOTAL U.S. ECONOMIC ASSISTANCE BY COUNTRY/SUB-REGION			HOUSING GUARANTEES		
	1982	1983	1984	1982	1983	1984	1982	1983	1984	1982	1983	1984	1982	1983	1984	1982	1983	1984	1982	1983	1984
CARIBBEAN																					
Belize	--	1.65	4.00	--	10.00 B/	—	—	—	—	—	--	--	—	--	--	--	11.65	4.00	2.00	--	--
Dom. Republic	19.04	25.76	31.00	41.00 B/	10.00 B/	40.00	--	—	—	16.90	18.00	20.00	3.12	2.29	2.02	80.06	56.05	93.82	--	5.00	--
Guyana	1.68	2.10	1.00	--	--	—	—	—	—	--	—	—	.15	.19	.20	1.83	2.29	1.20	--	--	--
Haiti	12.01	14.00	19.00	--	10.00 B/	5.00	--	—	—	13.00	11.00	11.00 (11.00)	9.15	8.09	8.21	34.16	43.09	43.21	--	5.00	--
Jamaica	28.86	37.00	33.50	90.46 (40.46) A/ (50.00) B/	53.00 (50.00) C/ (3.00) D/	55.00	.09	—	—	17.50	20.00	20.00	.01	.01	.01	136.92	110.01	108.51	—	10.00	--
Suriname	--	--	--	.50 A/	--	1.00	—	—	—	—	--	--	--	--	--	.50	--	1.00	--	—	--
Car. Regional	29.96	26.00	30.00	20.00 A/	31.00 (20.00) B/ (5.00) C/ (6.00) D/	25.00	.10	--	--	—	—	—	.05	.05	.09	50.11	57.05	55.09	10.00	--	5.00
Sub-Total	91.55	107.31	110.50	151.96	114.00	126.00	.19	--	--	47.40	49.00	51.00	12.40	10.63	11.33	303.50	280.94	306.83	12.00	20.00	5.00
CENTRAL AMERICA																					
Costa Rica	11.54	19.14	15.00	20.00 A/	125.00 (70.00) B/ (50.00) C/ (5.00) D/	70.00	--	—	—	18.00	20.00	20.00	1.09	.23	.04	50.63	164.36	105.04	20.00	—	--
El Salvador	36.20	30.14	30.00	115.00 (40.00) A/ (75.00) B/	140.00 C/	120.00	3.38	—	—	27.20	30.00	32.00	7.60	4.82	5.40	189.38	204.96	195.40	5.00	5.00	--
Guatemala	7.92	12.50	13.00	--	26.35 (10.00) B/ (10.35) C/ (6.00) D/	40.00	.26	—	—	—	--	7.00	5.62	5.27	4.40	13.80	44.12	64.40	10.00	—	10.00
Honduras	31.17	35.10	32.00	36.00 (1.00) A/ (35.00) B/	15.00 C/	40.00	—	—	—	7.00 (7.00)	5.00 (5.00)	8.00 (5.00)	3.09	3.67	3.20	78.06	58.77	83.20	10.00	—	15.00
Nicaragua	.60	—	--	5.10 A/	--	—	--	—	—	—	--	--	.35	.33	.34	6.13	.33	.34	--	--	--
Panama	11.69	10.00	11.00	--	--	--	--	—	—	--	—	--	1.36	1.32	.93	13.05	11.32	11.93	--	25.00	--
ROCAP	13.13	11.35	15.00	—	17.50 B/	--	--	--	—	—	--	--	--	--	--	13.13	28.85	15.00	--	—	--
Sub-Total	112.33	110.23	124.00	176.90	323.05	270.00	3.64	—	—	52.20	55.00	67.00	19.19	15.64	14.47	364.26	512.72	475.47	45.00	30.00	25.00
SOUTH AMERICA																					
Bolivia	2.12	10.10	5.00	--	--	--	--	--	—	10.00 (10.00)	18.60 (18.60)	10.00 (10.00)	6.40	8.82	7.54	18.52	37.52	22.54	--	15.00	--
Brazil	—	--	--	--	--	--	--	--	--	--	--	--	.34	.35	.32	.34	.35	.32	--	--	--
Chile	--	--	—	--	--	—	--	—	--	--	--	—	2.32	.96	--	2.32	.96	--	--	--	--
Ecuador	17.30	8.70	10.00	--	—	--	--	--	--	--	—	—	2.30	1.69	1.52	19.60	10.39	11.52	25.00	--	25.00
Paraguay	--	--	--	--	--	--	--	—	--	--	—	—	.11	.07	.06	.11	.07	.06	--	--	--
Peru	35.82	27.00	24.00	--	--	--	—	--	--	17.00	20.00	20.00	16.59	13.69	11.93	69.41	60.69	55.93	—	25.00	--
Sub-Total	55.24	45.00	39.00	--	--	--	--	--	--	27.00	38.60	30.00	28.14	25.50	21.37	110.38	109.98	90.37	25.00	40.00	25.00
LAC REGIONAL	21.74	20.29	19.00	--	11.50	2.00	--	—	—	--	--	—	—	--	--	21.74	31.79	21.00	--	--	--
TOTALS	280.06	291.63	300.50	328.06	449.35	390.00	3.83	—	--	126.60	142.60	148.00	59.81	51.85	47.17	799.96	935.43	893.67	82.00	90.00	55.00

A/ FY 82 Regular Appropriation B/ FY 82 Supplemental Appropriation C/ FY 83 Continuing Resolution
D/ FY 83 Supplemental Appropriation

Source: FY 1984 Congressional Presentation

ASIA

STATEMENT OF CHARLES W. GREENLEAF, JR., ASSISTANT ADMINISTRATOR

Senator **KASTEN**. Mr. Greenleaf.

Mr. **GREENLEAF**. We are continuing to address this Agency's mandate to meet basic human needs in the nine nations and two regional programs that our Bureau works with.

Our funding will continue basically in the same functional category that we had in the past, two-thirds in the agricultural area, approximately 22 percent in health and population assistance.

Also I would say in our program we are continuing to pursue four basic priorities of the administration: technology transfer, institution building, policy dialog, and the private sector.

I think that rather than go into individual countries, I will stop there.

Senator **KASTEN**. Thank you.

[The statement of Mr. Greenleaf follows:]

PREPARED STATEMENT OF CHARLES W. GREENLEAF, JR.

ASSISTANT ADMINISTRATOR, BUREAU FOR ASIA

AGENCY FOR INTERNATIONAL DEVELOPMENT

Mr. Chairman and Members of the Subcommittee:

I appreciate this opportunity to appear before you to present the Asia Bureau's budget request for FY 1984. The Development Assistance request is for $386 million for major programs in India, Bangladesh, Indonesia, Sri Lanka, Philippines, and Thailand, and somewhat smaller programs in Nepal, Burma, South Pacific and region-wide. ESF funding of $280 million is requested for development programs in Pakistan, Philippines, and Thailand. In addition, $353 million in PL-480 Titles I, II, and III are programmed for integration with DA and ESF resources for maximum development impact.

In the remarks that follow, I would like to discuss the development context within which this funding request is made, to highlight key elements of the FY 1984 request and offer some illustrations of how our aid programs address the basic human needs of poor people in Asian countries.

ASIAN OVERVIEW

Asia's high political significance to the world can only continue to increase as the Asian nations achieve greater economic growth. Helping to meet the challenges of Asian development is a key test for A.I.D. in its dual roles of supporting U.S. foreign policy and helping poor people through economic growth.

Asia is important strategically. For example, the Philippines hosts major U.S. air and naval installations and Pakistan looks across its border at 100,000 Soviet troops and advisors in Afghanistan. Our security interests are intertwined with other countries in the region because of their political role, stability, or sheer size.

Trade with Asia, long important, now exceeds that with Europe. We are India's largest supplier of non-oil imports and second largest private investor. Indonesia, the world's fifth most populous country, supplies us with over half our rubber imports, 13 percent of our tin, and 6 percent of crude petroleum imports.

Food production remains a problem in much of Asia. Despite record levels of foodgrain production in recent years for India, Bangladesh, Pakistan, and Indonesia these countries must raise their production further so that consumption standards can be maintained or modestly increased in the face of population increases, as well as to provide security against the ever-present threat of drought.

Population pressures are immense. The A.I.D.-assisted Asian countries contain twice as many people as the combined populations of Africa, Latin America and the Near East. Because of population growth, per capita food production for some of the most populous countries -- India, Bangladesh and Pakistan -- is now below 1969-71 levels.

Oil imports absorb approximately 70 percent of the export earnings of the South Asian countries. Higher prices have caused a 4-6% loss in real income for Thailand and the Philippines. Recent oil price declines will be beneficial for some importing countries. Others, however, may lose foreign exchange remittances if fewer of their nationals are able to find work in the Gulf States.

High infant and child mortality rates make these groups the most vulnerable in the Asian countries.

The private sector, both indigenous and U.S., is generally underutilized in the development process.

Economic Situation

All countries of the region have been adversely affected by the economic situation of the past several years. All of them have seen deterioration in their terms of trade. Debt-service ratios vary from a high of 23 percent for the Philippines and 28 percent for Burma, to a low of 9 percent for Thailand. All the countries face large trade and current account deficits in relation to GDP. The current account deficit as a percentage of GDP has reached 7.6 percent in Thailand and recently has gone as high as 16 percent for Sri Lanka.

In 1982 estimated data show most of the Asian countries with reserves equivalent to about three months or more of imports, which is a typical LDC reserve position in recent years. Bangladesh, Burma and Sri Lanka, however, show reserves equivalent to less than two months of imports. It is estimated that the Philippines had a debt service ratio of about 23 percent in 1982 but is taking a number of steps to reduce that level, based on advice from both the World Bank and the IMF, supported by A.I.D. The World Bank has a structural adjustment agreement to support the Philippines balance of payments.

Pakistan has had some debt rescheduling in recent years, along with substantial IMF assistance and resumption of U.S. aid. These factors, plus high world prices for some of its exports and substantial workers' remittances, have helped to stablize Pakistan's improved, but still fragile, balance of payments situation.

The other Asian countries have double digit debt service ratios but none of them too severe, e.g., Sri Lanka, 12 percent; Indonesia, 11 percent; and Bangladesh, 11 percent. Of course, the level of imports for Sri Lanka or Bangladesh is not adequate to stimulate rapid economic growth. The Asian countries have managed their fiscal affairs very prudently, but their economies generally have remained constrained by a lack of foreign exchange.

A.I.D. PRIORITIES

The A.I.D. program focus is to address our mandate from Congress to meet the basic human needs of the rural poor in the Asian countries we assist. With that in mind, the proposed 1984 program is being designed with continued attention to the new development emphases of this Administration:

-- greater emphasis on economic policy reform. Although we will pay close attention to macroeconomic policies, the AID program will impact most heavily on policies at the sectoral and project levels. The rural finance sector of Bangladesh, the management of irrigation systems in India, and watershed management in Indonesia are examples.

-- technology transfer and institutional development will receive great emphasis. The goal is to help build the capacity of Asia LDC's to deal more effectively with issues of economic growth and the alleviation of poverty.

-- an emphasis on private enterprise solutions to development problems in the various sectors. However, actual funding of activities with a "private enterprise" designation will be relatively small, with emphasis on technical assistance and experimental approaches.

FY 1984 DEVELOPMENT ASSISTANCE REQUEST

The $386 million Development Assistance program is described in detail in the Congressional Presentation. While there is no need to repeat that material, I would like to highlight a few initiatives that illustrate the program's basic objectives.

Agriculture, Rural Development and Nutrition

-- Over two-thirds of the FY 1984 Development Assistance request is for activities in this account. The emphasis is on increasing food production by and for poor people, and increasing their employment and incomes so that they can afford to improve their nutritional status.

-- The Maharashtra Minor Irrigation project in India will support 75 small irrigation projects on 28,000 hectares in poor, remote areas inhabited by 25,000 less privileged small farm families, including tribal, and scheduled caste populations. Water availability, design innovations, participatory farmer organization methods, and institution-building gains should help create substantially increased rural income and production.

-- The Philippines Upland Rainfed Agricultural Research project will develop alternative farming systems to improve the productivity, income, and environmental conditions of one of the poorest national groups--farm households who depend on upland rainfed agriculture. Foreign and local technical assistance and training, commodities and research will combine policy changes to address the needs of those living on a degenerating soil and water resource base.

Population and Health

-- The Sri Lanka Preventive Health Services project will reinforce Government efforts to address preventive, rather than merely curative, health care needs with technical assistance, training, and other support. Beneficiaries will include 1.3 million people in four districts who will receive improved primary health care, family planning, and water and sanitation services.

Selected Development Activities

-- In Indonesia, the Central Java Enterprise Development project will provide technical assistance and training to increase the productivity and employment levels of non-farm enterprises. Systems will be designed and tested to deliver capital, technology, management and marketing assistance to small scale entrepreneurs, many of whom are women.

FY 1984 ESF REQUEST

The Economic Support Fund request is for $280 million. Of that, $225 million will fund the program in Pakistan, largely for projects in agriculture and rural development, including agriculture production, research, education, rural electrification and irrigation; health, including primary health care, malaria control, and contraceptive marketing; and programs related to narcotics reduction. The $50 million planned for the Philippines is requested primarily for rural development and energy development programs. Thailand is budgeted for $5 million for development of rural areas affected by refugee migration. Throughout the region, ESF programs are targeted to the greatest extent possible on the basic needs of poor people and consistent with Administration initiatives on policy reform, technology transfer, institution building, and private sector.

A.I.D. AND NARCOTICS

A.I.D. and the Asia Bureau are committed to an effort to stem the flow of illicit narcotics entering the United States. Accordingly, we are encouraging foreign governments to experiment with more stable and less harmful crops, and to adopt policies that remove obstacles to increasing other agricultural production. The Asia Bureau has an important role because it covers portions of the notorious Golden Crescent and Golden Triangle narcotics areas.

In Pakistan, we are supporting GOP narcotics efforts through an ongoing project as well as a major new project starting in FY 1983; the inclusion of poppy clauses in most country wide projects; collaboration with State/INM; and establishment of a full-time narcotics project management officer within the A.I.D. Mission. In Thailand, the Government supports narcotics control, receiving some assistance from the State Department. A.I.D.'s Highland Area Development project indirectly supports crop substitution efforts by expanding the area coverage of cash crops that have proven to be successful alternatives to opium. In Burma, the government is pursuing narcotics control and eradication, working closely with the State Department/INM and United Nations Fund for Drug Abuse Control. There are still major problems in controlling the growing areas. There is no A.I.D. involvement at present, though we are exploring possibilities.

PL 480 Title I/III

The Title I request is $171 million in FY 1984 for four countries: Pakistan, Bangladesh, Sri Lanka and Indonesia.

The policy dialogue conducted in connection with the PL-480 Title I programs in Pakistan have resulted in a number of innovations. Among these have been the expansion of wheat production, use of fertilizer, and increased private sector involvement in the manufacturing and sale of fertilizer and other agricultural inputs. Similar important policy changes will continue to be discussed in the FY 1983 and FY 1984 PL-480 Title I agreements.

In Bangladesh, the largest Title III program in the world deals with major policy issues including foodgrain price supports, rationalization of the public food distribution system and acquisition and management of grain reserves.

PL 480 Title II

In 1984 we are requesting $182 million for Title II World Food Program and voluntary agency programs in India, Bangladesh, Sri Lanka, Indonesia and the Philippines. We are continuing to improve our Title II programs. For example, an evaluation of the Sri Lanka Title II Thriposha program found it to be one of the better Maternal Child Health (MCH) programs sponsored under Title II and also recommended that a plan be developed to phase-out the school feeding program.

Private and Voluntary Organizations

We continue to use the extensive abilities of our private sector colleagues in implementing our Title II programs. For example, CARE and Catholic Relief Services assist with Title II implementation in India and Bangladesh, while a host of PVOs cooperate throughout the region in activities funded by A.I.D. through dollar grants as well as Title II food donations. Most of the aid program in the South Pacific, for example, is planned and implemented by PVO's.

Management Initiatives

We are attempting to improve a range of management practices in the administration of U.S. assistance programs in Asia. Through project evaluations, we are improving the effectiveness of our assistance and learning from past experience. Some 65 project evaluations were completed last year. We are dealing with audit recommendations forthrightly. We have maintained a close liaison with congressional staff on audit and other management concerns. The bureau has tightened its project implementation review process to better identify projects which require re-design, deobligation or other special attention of management. Finally, we are reducing the cost of managing the A.I.D. program through reduction in direct hire staff in Washington and, to a lesser extent, overseas.

Conclusion

By and large the Asian nations are employing economic assistance -- both multi- and bilateral -- to build their economic capacities and to help alleviate proverty. We recognize, of course, that there are significant economic differences within the region. The countries of Southeast Asia in general are progressing more rapidly than the recipients in South Asia. All countries in the region recently have been following sound economic policies, but the severe population pressure in South Asia has kept those countries from progressing as rapidly as is the case in Thailand, Indonesia and the Philippines. For South Asia, we envision a basic rural development focus for some years to come, with the exception of India which does receive substantial science and technology assistance. For Southeast Asia, we are beginning the process of thinking through the possible program changes which must evolve as these nations continue to progress.

Thank you for the opportunity to appear before you today. I look forward to answering your questions.

NEAR EAST

STATEMENT OF ANTOINETTE FORD, ASSISTANT ADMINISTRATOR

Senator KASTEN. Ms. Ford.

Ms. FORD. The administration's goal in the Middle East is to help bring a lasting peace to this crisis torn area. Our economic assistance program is designed to help bolster the efforts of those countries which are taking major policy risks on the road to peace by addressing some of the pressing economic and long-term development problems in these countries.

Certain of our programs are directed at helping those countries in the region which provide important access or transit facilities into the region for U.S. forces and also support their deployment in time of crisis. Through our support of long-term economic and social development, as well as economic stabilization and reconstruction efforts in Lebanon, AID helps to strengthen the perception that the United States is dedicated to the security and wellbeing of all friendly states in the area:

Senator KASTEN. Thank you very much.

[The statement of Ms. Ford follows:]

PREPARED STATEMENT OF W. ANTOINETTE FORD
ASSISTANT ADMINISTRATOR, BUREAU FOR NEAR EAST
AGENCY FOR INTERNATIONAL DEVELOPMENT

Mr. Chairman and Members of the Committee:

I am pleased to be here today to support the President's request for economic assistance for countries in the Near East region. For the region as a whole, the President is requesting $1,863 million, comprised of $1,810 million for Economic Support Funds (ESF) and $53 million in Development Assistance funds. Attached to this statement, which I am submitting for the record, is a table which summarizes the Administration's request. Under a separate appropriation, $319.6 million in Public Law 480 Titles I and II is planned for countries in the Near East.

Within the region, our request for countries in the Middle East includes $1,592 million in Economic Support Funds and $53 million in Development Assistance while our request for countries in Europe is in the amount of $218 million under the ESF.

THE MIDDLE EAST

The Administration's goal - as stated in the President's initiative last September - is to help bring a just and lasting peace to this crisis torn area. In this context, our economic assistance programs are designed to help bolster the efforts of those governments which are undertaking major policy risks on the road to peace by addressing some of the pressing economic and long term development problems which these countries face. Certain of our programs are directed at helping those countries in the region which provide important access or transit facilities into the region for U.S. forces and support their deployment in time of crisis to defend strategic U.S. in the region. Through our support of long term economic and social development as well as economic stabilization and emergency reconstruction efforts in Lebanon, AID helps strengthen the perception that the U.S. is dedicated to the security and economic well being of all friendly states in the area.

Egypt

For fiscal year 1984, we are requesting $750 million under the Economic

Support Fund, the same level as in FY 1983. In addition, $267.5 million is planned under PL 480 -- $250 million under Title I and $17.5 million under Title II. We are proposing that the resources to be made available under the Economic Support Fund be provided as grants, as Congress has provided since FY 1981. PL 480 Title I resources would be provided as loans payable over a period of 40 years, including a ten year grace period. Interest on the loans would be two percent during the grace period and three percent thereafter.

The program of economic assistance to Egypt which we are requesting for FY 1984 continues to be built around three central objectives: stability, productivity, and equity. The main components of the Economic Support Fund program are:

-- A $300 million Commodity Import Program to help assure the availability of essential materials and capital goods for Egyptian industries and development programs and consumer items needed by the populace.

-- $200 million to support the Government of Egypt's new and ambitious five year plan for improving water and sewerage infrastructure, particularly in the greater Cairo and Alexandria metropolitan area and in the cities bordering the Suez Canal.

-- $102 million in incremental funding for decentralization activities. These funds will be allocated among the Basic Village Services, Provincial Cities, Neighborhood Urban Services, and Decentralization Support Fund sub-activities included in the Decentralization Sector Support program.

-- $45 million for industry in the form of additional credit, especially medium and long term, for investment, and equipment to expand pollution control in the Nile Valley and Delta areas.

-- $25 million to expand successful ongoing small farmer agricultural credit and irrigation management projects.

-- $63 million to continue and expand ongoing health, population, and education programs.

-- $10 million for technology transfer through an ongoing project in energy policy and planning and renewable energy.

-- $5 million for a new project emphasizing long term workforce planning and priority training.

The proposed FY 1984 program reflects a year of extensive discussions with the Egyptian government about the focus, structure, and flexibility of the U.S. economic assistance program and the nature, timing, and pace of Egyptian economic reforms. The program responds to the priorities of the Government of Egypt's new five year plan and the Goverment's request that a larger share of U.S. economic assistance planned for Egypt be concentrated in water and sewerage infrastructure, agriculture, and industry. The proposed program avoids investments in areas where they might negatively impact on the pace of economic reforms.

Before proceeding to elaborate on the impact of our past assistance and our FY 1984 request I would like to comment briefly on the current state of the Egyptian economy and the economic measures being taken by the Egyptian government. In our April 1982 report on the Egyptian Economy and Debt Repayment Prospects we noted the downturn in world economic conditions and the likely adverse effects this would have on the Egyptian economy. In light of the expected continuation of these conditions, the report outlined policy measures the government might consider to enable the economy to adjust without detriment to the country's development program. The report suggested measures: 1) to encourage non-oil exports; 2) to attract external capital through exchange and interest rate adjustments; and 3) to lessen demand growth by reducing budget deficits.

Our latest report, submitted to the Congress in February 1983, confirms that the adverse effects anticipated in our earlier report have in fact occured. In contrast to the 27 percent average annual growth in foreign exchange earnings from 1976 to 1980, the value of both merchandise exports and service receipts declined in 1982. Lower foreign exchange earnings forced a nominal decline in imports, especially capital equipment purchases. A precipitous drop in imports and in consumption levels was avoided only by a decline in Egyptian import prices. Despite lower imports, the current account, balance of payments deficit is estimated by A.I.D. to have increased by $1 billion to $3.5 billion. The overall deficit is thought to have exceeded $1 billion and was financed largely by short-term borrowing. The impact of the lower foreign trade level is not yet reflected in data on domestic output, as domestic demand was sustained by a budget deficit equivalent to nearly 20 percent of gross domestic product in the Egyptian fiscal year 1981/82 and projected to exceed that in the 1982/83 fiscal year. Budget deficits are fueled by extensive subsidies on food and other basic goods, which absorb 30 percent of central government revenues. Domestic energy prices, despite modest increases in 1982, remain low, representing on average only 20% of their international values, are resulting in capital and energy intensive investments being favored over labor intensive industries which would provide employment for Egypt's rapidly growing labor force. Despite recent increases, farm gate prices remain too low to encourage the farmer to take full advantage of new technologies which would significantly increase his yields. Imports now account for nearly 50% of Egypt's food consumption. A policy framework which minimizes price distortions and leads to competitive production for the domestic and export markets consistent with Egypt's comparative advantage remains an essential requirement for self-sustaining growth.

Over the past year we have had a series of discussions with Egyptian officials on how ESF resources might be used to support important economic reforms which the Government has determined are necessary. Discussions began with the visit of President Mubarak in February 1982, continued during the year with separate discussions of former Deputy Administrator Joseph Wheeler, myself, and Administrator McPherson in Cairo, in addition to regular consultations carried out by the Country Team in Egypt, and most recently with the visit of President Mubarak and several of his key Ministers here in Washington in January 1983. These discussions have resulted in a clearer understanding of the economic problems faced by the Egyptians.

President Mubarak has encouraged open discussions of economic issues and the government is taking some steps to raise prices of highly subsidized items, to allow interest rates and foreign exchange rates to more nearly reflect market conditions, to encourage foreign investment, and to give more attention to the productive sectors - agriculture and industry.

For example, during the past year:

-- Lentils, fava beans, margarine and soap were removed from the list of commodities sold at subsidized prices;

-- Interest rates on Egyptian pound deposits were raised in a move designed to increase savings;

-- The range of consumer items imported by the Government at the undervalued official foreign exchange rate for sale through government stores was reduced;

-- Electricity rates for residential and low and medium voltage business consumers were increased an average of 10 percent, and rates for two large industrial plants (aluminum and fertilizer), which together are responsible for one-fifth of national electricity consumption, were increased 50 and 60 percent respectively;

-- In the industrial sector, implementing regulations for a new companies' law were issued. This law extends to new Egyptian private sector investments the range of investment incentives available to Law 43 joint venture undertakings. Together with other administrative changes, this brought a notable increase in investment applications and approvals.

-- In the agricultural sector, the Government raised prices paid farmers for wheat, rice, corn, fava beans, soybeans, sugar cane and cotton between 5 - 20 percent and consolidated research and extension functions as recommended by both the BIFAD extension team and the Presidential Mission.

Nevertheless, as elaborated in our report on the Egyptian Economy and Debt Repayment Prospects, much remains to be done to adjust to new economic conditions. AID remains sensitive to and supportive of structural adjustment requirements. For example, while we have an electricity generating project (Ismailia Electric Power Plant) in the budget for FY 1983, we have not definitively decided to go forward with this project. The Egyptian Government is currently reviewing its energy price policies. Until this process is completed it is premature to speculate whether the resulting policies will provide the appropriate framework for support of additional power investments.

In addition to recent agreement on areas of concentration of our assistance, the past year has also produced some programmatic changes in response to the Statement of Principles issued during President Mubarak's February 1982 trip.

-- We are providing sector, rather than project, assistance whenever appropriate (examples include the Decentralization Sector Support Program in FY 1982 and a broad sector support program covering comprehensive agricultural research and extension requirements planned for FY 1983);

-- We incrementally fund, rather than fully fund, projects whenever possible to keep obligations more in line with the rate of expenditure of a project;

-- Last year we began high level, bi-annual portfolio reviews with the Egyptian government to help resolve implementation problems.

-- The Egyptian Government has requested that as much as $450 million of our assistance be allocated annually to the Commodity Import Program (CIP). We are proposing a more modest level since about two-thirds of our assistance already is provided in quick disbursing forms (e.g. CIP and PL-480 Title I programs) which support balance of payments objectives. We agree with the conclusion of this subcommittee's staff trip report that the CIP should not be allowed to dominate the program at the expense of other worthwhile economic and social development investments.

I will turn now more directly to the progress of our AID program.

In spite of the fact that last year I predicted expenditures would exceed new obligations in FY 1982, and that didn't happen, I believe that the pipeline has now peaked at $2.7 billion.

FY 1982 was a disappointing year in terms of expenditures. CIP expenditures in FY 1982 were $140 million below their level in FY 1981, primarily because of negotiations with the Egyptian government on credit term policies. I believe the changes made as a result of these discussions were worth the temporary delay in disbursements. While project expenditures reached a new high in FY 1982, $355 million, we had hoped for even more. The uncertain environment following President Sadat's assassination and successive changes in the Cabinet slowed decision making in the Egyptian bureacracy and, therefore, the rate of implementation.

We project that in FY 1983, expenditures will reach $867 million and exceed new obligations for the first time. I accept that this target sounds high. However we have made a special effort to assure that the expenditure projections are realistic. Barring a calamity, we should be close to the target level. In fact, expenditures during the first quarter of FY 1983 were $216 million, right on target.

Many of our large construction projects are now under full implementation after years of planning and design. I am pleased to announce that U.S. contractors now are mobilizing in Cairo to carry out two additional major construction jobs under the Cairo Water and Cairo Sewerage programs.

Indeed a number of our capital and technical assistance projects are completed or nearing completion, making the impact of U.S. assistance increasingly widespread and visible to the average Egyptian. Other continuing projects are already producing important results. A short list of these activities includes the following:

-- The steam power facility at Ismailia is nearing completion and will add another 450 megawatts. The first unit start-up is scheduled for early 1983, with the second in mid 1983, and the third in mid 1984. This project is on target and on budget. Two gas turbine stations were previously completed in the industrial areas of Helwan and Talkha which added three hundred megawatts of power to the grid.

-- A $100 million project to construct the Suez Cement Company plant, capable of producing a million tons of cement a year, should begin production in mid-1983. A second plant at Quattimaya, ($95 million) should be completed one year later.

-- Construction and computer installation of the new, fully automated National Energy Control Center at Embaba ($43.5 million) was completed in mid 1982. Final hook-up to the national grid is underway.

-- Since 1980 nearly $80 million in ESF grant funds plus $45 million in Title III funds have been disbursed for activities in the Decentralization Sector Support program. More than 1900 water, sewerage and other service activities have been completed or are well underway in nine rural governorates and five urban centers. The program will expand to 21 rural governorates during 1983. Decentralization activities also are spurring new or expanded private sector contracting and service activities.

-- A program to rehabilitate irrigation canals through provision of canal maintenance equipment ($19 million) is nearing completion. All equipment is under procurement, and the hydraulic dredge maintenance equipment has

-- the Peace Fellowship program, after somewhat of a slow start, which is now in full swing with 704 participants currently enrolled in post-graduate programs in the United States; and

-- the family planning program which is very active in both governmental and private sectors, and which has received public support from President Mubarak. There is some uncertainty about what precisely is happening to the rate of population growth: the Egyptian government recently announced that population growth declined from nearly 3% in 1980 to 2.54% in 1982 while other non-Egyptian agencies are estimating a less rapid decline. However, after several years of increasing population growth rates, the trend is clearly one of slower growth rates.

Progress in certain other areas has been less than we or the Egyptian Government had hoped. The Helwan Housing project continues to be marked by slow progress due to a variety of factors including troublesome soil conditions and inadequate Egyptian project management. Certain complex construction projects, in particular those involving grain silos and water and sewerage infrastructure, have been confronted with contractor coordination and manpower availability issues. To alleviate these problems, greater use of turnkey contracts with U.S. construction firms is being utilized. Three large projects receiving funding in FY 1982, organized on a turnkey basis, were the Rehabilitation of Aswan Turbines, Grain Silos II, and Cairo Water activities.

Another area where progress has been far more limited than desirable is our private sector portfolio. The Private Investment Encouragement Fund, provided for in 1979, is still not operational. Expenditures under the Development Industrial Bank project have lagged behind expectations. However, the private sector program has recently shown signs of renewed vitality.

The Private Sector Feasibility Studies project finally is moving forward due to the interest in promoting foreign investment shown by the new Minister of Investment and International Cooperation. After only a couple of months in office Minister Shindy has effectively gotten this activity on track. Of the thirty-seven investor applications for cost sharing that have been received, decisions have now been made on thirty-five. Our Mission is working closely with Minister Shindy on ways to invigorate other existing projects and to structure a more effective private sector program.

arrived in country and is in use. Delivery of all equipment is expected to be completed by June 30, 1983.

-- Significant yield increases have been achieved in field trials of the $47 million Major Cereals project during the 1981/82 crop seasons. 6,742 farmers working on 6,021 feddans produced an average 2.46 MT of wheat per feddan (about one acre), 47.3% higher than nearby controlled plots and 60% higher than the national average. Maize demonstration plots on 6,000 feddans yielded an average 2.93 MT per feddan, 52% higher than controlled plots and 60% above the national average. Sorghum demonstration plots on 500 feddans yielded an average 2.66 MT per feddan, 64% above control group plots. Soybean demonstration plots on 2,000 feddans yielded an average 1.49 MT per feddan, 27% greater than those plots in the control group.

-- A careful blend of farm management and credit practices in the Small Farmer Production Project has resulted in tomato yield increases from 6 MT a feddan to 14 to 22 MT per feddan in Sharkiya Governorate. Pest control efforts on eggplants are yielding increases of 35%. The GOE has waived production quotas and mandatory cropping patterns for farmers participating in this project. The resulting significant production increases realized by participating farmers are providing an opportunity for the government to gauge the serious disincentives to agricultural production posed by present price policies and production controls. In achieving these results, participating farmers have been willing to pay the substantially higher credit interest rates called for in this project (8% versus 4% in Government controlled quota and mandatory cropping pattern programs).

Other bright spots include:

-- the rapid take-off of our Basic Education program, which is expanding access to primary schooling, particularly for females in rural areas. Begun in August 1981, 1100 classrooms have been put to bid, actual construction begun on 717, and the first 18 classrooms (2 schools) were completed in December 1982. We'd like to note that we are supplying practical instructional materials to these and other primary schools through the CIP;

In conclusion, we believe that the economic assistance program to Egypt is maturing. Most projects have moved into full-scale implementation. Intensive mangement attention is being devoted to those that are not. We are more attune to Egyptian priorities and requirements. Our Egyptian colleagues have become more familiar with AID procedures and limitations. Discussions over the past year have resulted in a strengthened partnership and a renewed conviction that the economic assistance program to Egypt is improving the lives of large segments of the Egyptian populace.

Israel

Our fiscal year 1984 request is for $785 million in grants from the Economic Support Fund. This is the same level Israel has received in previous years. ESF resources combined with the proposed FMS program is a strong demonstration of U.S. support for Israel and one which is intended to provide Israel the security needed to take the risks associated with further steps toward peace in the Middle East. As in the past, the ESF cash transfer program will be implemented on the assurance from Israel that it will continue to import non-defense goods from the U.S. in an amount at least equal to the cash transfer level and that Israel will follow agreed procedures for selecting dry bulk carriers to ship grain. These procedures were developed with a view toward assuring a share of the market for U.S. flag carriers.

Israeli economic performance in 1982 was somewhat disappointing. High defense expenditures, continued efforts to maintain a high level of social services and economic security while avoiding any increase in unemployment and the prolonged recession in Western Europe and North America were major causal factors. While final statistics are not available, it appears that economic growth stagnated in 1982 in contrast to a real growth rate of 4.6% in 1981. However, per capita domestic consumption grew by 7%. The inflation rate increased to 131.5% compared to 101.5% in 1981 and a record rate of 132.9% in 1980. Exports declined by 7% while imports grew. The non-defense goods and services deficit for 1982 was probably in the range of $2.5 to $2.8 billion in comparison to a $2.2 billion level for 1981. However, since Israel's foreign exchange reserves at the end of December 1982 increased by $294 million from a year earlier, it is clear that net capital inflows -- foreign investment, commercial borrowing and aid -- were more than sufficient to finance the current account deficit and the amortization of Israel's external debt.

The net impact of the war in Lebanon on Israel's overall economic performance is not expected to be large. Of course, the conflict did entail expenditures which had not been foreseen. These are estimated to have been in excess of $1 billion. However, the Government responded by taking a number of measures which were designed to generate additional revenues and to spread the cost of the war over a three year period.

Despite economic policy reforms adopted in 1982 and prior years, Israel's basic economic problems continue. These problems are triple digit inflation and disequilibrium in the balance of payments. The challange is to resolve these problems without sacrificing the economic well-being of the Israeli people as reflected in the high level of social and economic development of the country and a low rate of unemployment. Achievement of these objectives requires continued priority to export expansion while holding growth in domestic demand to moderate levels, constraints on monetary expansion and careful scheduling of military equipment purchases so that they do not unduly exacerbate existing economic pressures. Given realistic economic policies, the anticipated economic upturn in Western Europe and North America, and continued support from private donors and the U.S. Government, the Israeli economy should remain viable and dynamic.

Based upon on current circumstances, it is the Administration's view that the proposed aid level and terms are adequate to meet Israel's requirements without creating the need for unduly burdensome economic adjustments in Israel and without leading to a serious debt problem.

Jordan

In fiscal year 1984 we are requesting $20 million under the Economic Support Fund for Jordan, of which $7 million will be repayable loans with maturities of 20 years, a five year grace period, and five percent interest. These resources will be used to support priority development programs in a country which plays a moderating role in the Arab world and which has been positive in its response to President Reagan's September 1, 1982 peace initiative. While Jordan's level of per capita income ($1600 per year) places it in the ranks of middle income countries, its need for external resources is greater now than a year ago. Jordan continues to be highly dependent upon foreign assistance to finance its ambitious development plans and with the sluggish demand for and declining prices of oil, some Arab donors have slowed or reduced their assistance to Jordan. Remittances from Jordanian workers abroad have also begun to level off. Through 1981 Jordan was maintaining an overall balance of payments surplus and expansion of gross domestic product was an impressive 7.6 percent. With meager natural resources, Jordan's successes are attributed to government policies which encourage a dynamic private sector and to a skilled and hard working labor force.

The fiscal year 1984 program will continue the transition begin in 1982 away from capital infrastructure projects toward technical assistance and technology transfer projects which stress institution building as the best means to make a qualitative American impact with a relatively small assistance program. A.I.D. assistance will help create Jordanian capacities to provide safe water and controlled sewerage to growing urban populations while exploiting and conserving its very scarce water resources; substantially increase crop productivity on irrigated farmlands; simultaneously attack the health problems of mothers and children while increasing public awareness of Jordan's overriding population growth problem; promote the transfer of appropriate technology; and launch a new in-country program to accelerate the development of critically scarce management skills.

Lebanon

A.I.D. is deeply engaged in a reconstruction effort in strife-torn Lebanon but because the requirements must be met on an urgent basis, funding was requested in the form of a fiscal year 1983 supplemental. It is important for the U.S. to be able to make a tangible demonstration of its commitment to Lebanon's reconstruction and, thereby, help galvanize the support of European and Arab donors as well as multilateral institutions. For these reasons, program requirements which might have been requested in the fiscal year 1984 budget have been covered by the special supplemental request.

Morocco

For fiscal year 1984 we are requesting $19 million in Development Assistance funds and $7 million under the Economic Support Fund for Morocco. In addition, under a separate appropriation, we are requesting $25 million under PL 480 Title I and $9.8 million for the Title II program. The substantially increased economic assistance reflects the fact that Morocco, as a long-standing friend to the U.S., is faced with a deteriorating economic situation marked by a growing trade deficit, increasing external debt and very difficult domestic financial problems.

More specifically, real gross domestic product declined 1.3 percent in 1981 and 4.1 percent in per capita terms. Virtually all sectors of the economy declined during 1981 led by a 23 percent drop in agricultural production attributed to the drought. In 1982, it appears that real growth advanced by 7 percent, sparked by a 30 percent growth in agriculture. However, the agricultural recovery is again in doubt since the 1982/83 winter harvest may be seriously affected by drought once again. The mining sector remains essentially flat because of continuing softness in export markets for phosphates. Overall, while GDP per capita fluctuates year to year, it appears to be essentially stagnant. While we do not have final figures for the 1982 balance of payments the prospect is distressing with a stagnant export sector, a growing import burden, increasing debt service requirements, and some possible reductions in assistance from Arab donors.

Morocco's requirement for a high level of wheat imports, a stagnant agricultural sector and high rural underemployment has led A.I.D. to a strategy which concentrates on two priorities -- increasing food production on rainfed lands and reducing the rate of population growth. A.I.D.'s agricultual strategy combines Development Assistance funding, PL 480 Title I local currency sales proceeds and ESF in an integrated program to promote investment in rainfed agriculture. The principal component of A.I.D.'s population strategy is to help the government to deliver basic health services combined with family planning education and commodities on a wide scale. A.I.D. also provides modest levels of support for renewable energy activities targetted on rural areas which lack conventional energy supplies and for a participant training program, both university level and in-country, for government personnel including both regional and local officials.

Oman

In fiscal year 1984 we are requesting $15 million under the Economic Support Fund for Oman of which $5 million would be in the form of grants and

$10 million in loans. The loan funds are repayable in twenty years with a five year grace period and five percent interest per annum. In 1980 the United States agreed to establish a Joint Commission with Oman through which modest levels of economic assistance would be channeled to respond to the Omani desire to broaden our bilateral relationship beyond mutual security concerns in the area. Oman's high per capita income is based almost entirely on its oil wealth and obscures the fact that the overall level of economic development is low. The modernization process is only a little more than a decade old and the country has spent large sums of money on creating the basic physical infrastructure upon which to launch effective development programs. Oman will require technical assistance for many years to implement development programs which will meet the needs of its people.

The fiscal year 1984 grant funds will support the work of the Joint Commission -- now staffed and operational -- feasibility studies and technical assistance including further support for the fisheries and participant training projects, the former which began in fiscal year 1982 and the latter which is expected to begin in fiscal year 1983. The $10 million loan may be used to support the further expansion of the schools construction project which the Joint Commission intends to initiate in fiscal year 1983.

Yemen Arab Republic

We are requesting $28 million Development Assistance grants for Yemen in fiscal year 1984 and, under a separate appropriation, $3 million in PL 480 Title I to finance wheat flour imports.

Despite several years of rapid domestic economic growth Yemen still ranks as one of the world's poor countries, particularly in terms of quality of life indicators. Beginning in the latter half of the 1970s real gross domestic product expanded at a rate between 8-10 percent per annum, fueled primarily by the growth of remittances from Yemenis working abroad and foreign assistance, principally from Arab donors. While the figures are not entirely reliable, it is clear that the trend in working remittances and Arab assistance donor assistance is generally down. Some estimates would have remittances declining from a high of about $1.5 billion in 1979 to as low $700 million in 1982. These economic trends coupled with a growing trade deficit and devastating earthquake on December 13, 1982 in Dhamar Province -- which reportedly killed or injured 5000 people and left up to 400,000 homeless -- strongly suggest that the Government of Yemen will not be able to implement its ambitious development schemes as previously planned.

Aside from some agricultural potential Yemen's natural resources are meager. Yet there is a reasonable prospect that by building up the physical infrastructure, creating institutions, mobilizing its human resources and further encouraging a dynamic private sector that it will be possible to achieve substantial improvements in the quality of life for Yemeni citizens. In this context the A.I.D. strategy places particular emphasis on institutional development, human resource mobilization and appropriate technology transfer while other donors, particularly the Arabs, emphasize capital intensive construction. Our strategy is manifest in our portfolio of projects which address a wide range of agricultural problems, through a long term, U.S. University, Title XII endeavor with the Ministry of Agriculture; a similar collaborative assistance project in education which will improve primary education and teacher preparation; and a broad based participant training project to introduce needed technical and managerial skills into governmental and private institutions. The portfolio also includes significant projects addressing health service delivery in the Tihama, the poorest area of the country, village based development activities -- particularly water supply projects, and a new effort to train health care workers in family planning education. All elements of the A.I.D. program are heavily laden with the technical assistance and training which will help Yemen to achieve productive growth, increase employment and income, and address some of the basic needs of its people particularly in the areas of education and health.

Regional Activities

In addition to these country programs we are requesting $6 million in Development Assistance grant funds and $15 million in grants under the Economic Support Fund for projects which primarily impact on the Middle East.

The Development Assistance grants will finance the continuing scholarship program at the American University of Beirut ($3 million) which will cover the full financing of 50 new students, project design and evaluation work (about

$1 million) for Middle East development assistance programs, and five continuing projects (about $2 million). These include family planning activities in those countries which do not have bilateral population programs, the National Technical Information Service project, a project to stimulate private enterprise development, a program of small projects in collaboration with the Peace Corps, and technical assistance to the Arab Center for the Study of Arid Zones and Drylands.

Our request under the Economic Support Fund will sustain our development efforts in the West Bank and Gaza ($7 million) which are implemented by American voluntary agencies and address needs in the areas of vocational and higher education, community development, land reclamation, improved water storage and agricultural cooperative marketing, etc. In addition, $7 million is requested to finance cooperative scientific, technical and other activities of mutual interest to Israel and its Arab neighbors and $1 million is required for project development and support activities, primarily project design and evaluation services, related to the development of ESF country programs.

EUROPE

For fiscal year 1984 we are requesting $218 million under the Economic Support Fund to address critical economic and security needs in Turkey and Portugal and to continue the scholarship program in Cyprus.

Turkey

We are requesting $175 million to continue support of Turkey's economic stabilization program. We plan to provide the assistance in the form of a $100 million grant and $75 million loan, repayable in 20 years with a 5 year grace period on repayment of principal and 5 percent interest throughout. We expect other OECD donors and Arab nations to provide assistance as well. The Turkish government continues to show political courage in implementing its comprehensive and well-conceived economic reform program. It still needs and deserves the support of its allies and friends. We will do what we can to encourage this support.

The Turkish government put into place a well-conceived and far-reaching economic reform program in January 1980. Its major features have remained intact and include the maintenance of a realistic foreign exchange rate;

elimination of government subsidies to cover operating losses of most State Economic Enterprises; fiscal, monetary and wage restraint; elimination of most price and interest rate controls; and liberalization of the foreign investment regime.

Turkey's performance through 1982 provides strong evidence that the new policies have taken hold. Wholesale prices, which doubled in 1980, increased by only 25 percent in 1981 and probably by only 23% for 1982. GNP has maintained a constant annual real growth rate of 4.5% for the past two years compared to absolute declines in 1979 and 1980. Exports surged in 1981 and were up an additional 15-25% in 1982. This coupled with a leveling off in payments for imports led to further improvement in the trade balance. The current account deficit declined from about $3.2 billion in 1980 to $2.1 billion in 1981 and will probably be about half that in 1982.

Turkish dependence on concessional assistance is not as great as it has been in recent years. Our fiscal year 1984 budget request reflects this fact. In our view it would be a mistake to reduce economic assistance further. Turkey is entering a critical period when interest and principal obligations on outstanding debt will rise as the relief provided by recent debt reschedulings diminishes. Balance of payments deficits on current account are likely for the next few years. Although the likely levels are smaller than those of recent years, there is still considerable doubt that the private commercial market will provide all of the financing necessary.

Portugal

We are requesting $40 million in fiscal year 1984 under the Economic Support Fund for Portugal. The United States and Portugal have initiated discussions concerning a new security cooperation agreement. We anticipate that a cash transfer in the amount of $40 million will be required in FY 1984 in connection with the new understanding. As in the past, the Government of Portugal is very likely to use the transfer to advance the economic and social development of the Azores and might also allocate a small amount to establish a Luso-American Development Foundation whose purpose will be to sustain technical cooperation and exchange between our two countries.

The Committee may be interested to learn that the earlier technical assistance and earthquake reconstruction efforts are largely completed and the USAID staff is being phased down to only one AID officer by the end of FY 83. Since 1975 A.I.D. has helped in the resettlement of refugees from Africa, provided loans for social infrastructure (particularly schools and rural health centers), and made a $300 million loan to Portugal for economic stabilization as part of a highly successful multilateral stabilization program. A.I.D. has also provided housing guarantees to address the critical housing shortage and helped with reconstruction following the 1980 earthquake in the Azores.

Cyprus

In fiscal year 1984 we are requesting $3 million in grants under the Economic Support Fund for the scholarship program. The program began in FY 1982 after lengthy negotiations with the planning officials in both Cypriot communities. The program is administered jointly by American-Mideast Educational and Training Services and the Fulbright Commission. The first group of students entered U.S. institutions in the fall of 1982 and selection and placement is currently underway for the next group for the fall of 1983.

No funding is requested for the United Nations High Commission for Refugees (UNHCR) since the objectives of the programs administered by this Agency have been achieved.

Thank you Mr. Chairman, I would be pleased to answer any questions you and members of the Committee may have.

Attachment

NEAR EAST
PROGRAM SUMMARY
(in millions of dollars)

		FY 1982 Actual	FY 1983 Estimated	FY 1984 Proposed
MIDDLE EAST				
Egypt	ESF	771.0	750.0	750.0
Israel	ESF	806.0	785.0	785.0
Jordan	ESF	15.0	20.0	20.0
Lebanon	ESF	6.0	150.0 1/	-
Morocco	DA	11.7	11.8	19.0
	ESF	-	-	7.0
Oman	ESF	15.0	15.0	15.0
Tunisia	ESF	5.0	5.0	-
Yemen	DA	23.3	28.1	28.0
DA Regional Activities		4.4	5.2	6.0
ESF Regional Activites		11.1	15.0 2/	15.0
(Reg. Cooperation)		(4.1)	(7.5)	(7.0)
(West Bank/Gaza)		(6.0)	(6.5)	(7.0)
(Project Dev./Support)		(1.0)	(1.0)	(1.0)
Sub-Total Middle East		1,668.5	1,785.1	1,645.0
	ESF	1,629.1	1,740.0	1,592.0
	DA	39.4	45.1	53.0
EUROPE				
Cyprus	ESF	15.0	15.0 3/	3.0
Poland	ESF	5.0	-	-
Portugal	ESF	20.0	20.0	40.0
Turkey	ESF	300.0	300.0 4/	175.0
Sub-Total Europe		340.0	335.0	218.0
	ESF	340.0	335.0	218.0
NEAR EAST TOTAL		2,008.5	2,120.1	1,863.0
	ESF	1,969.1	2,075.0	1.810.0
	DA	39.4	45.1	53.0

1/ Supplemental appropriation covering FY 1983 and 1984
2/ Includes $2.5 million supplemental request
3/ Includes $10 million supplemental request
4/ Includes $55 million supplemental request

KIDNAPPINGS IN GUATEMALA

Senator **Kasten**. It is my intention to address the questions to you, Mr. McPherson. If there are specific additions by any of the other individuals, maybe you can coordinate them on your side of the table.

First of all, in Latin America can you give us an update on the reports coming out of Guatemala that four AID contractors were kidnapped?

We are also informed by the House delegation recently in that country that the Guatemalan Government, particularly the military, took a rather cavalier attitude toward the disappearance of these personnel. In fact, they did not seem to be as concerned as they should have been.

I do not know if that is true or not. Is that true?

In view of this incident involving AID contract personnel, are we going to go ahead with the program in Guatemala?

Mr. **McPherson**. We are unable to confirm the details of the reports of Guatemala. This matter is obviously of the greatest concern to us. The matter involves the rights of the people, our own contract employees.

The full facts of the situation are being taken up with the Guatemalan Government by our Ambassador. As to how the situation may affect the foreign aid program, it is a situation that we need to watch. We will be more than happy to keep you informed as it develops. We obviously feel very strongly about this matter.

[The information follows:]

Update on Guatemala/Aid Contract Employee

We have had several exchanges with the Guatemalan Government, both formal and informal over this case. The Guatemalan Government had told us that the officer in charge of the patrol that originally detained the four people is now under detention and being tried for murder. As you are aware, there are conflicting accounts as to what led to the death of Patricio Ortiz and his companions. We are awaiting further information from the Government about that event. The detention and trial of the patrol leader for murder is a positive step and a sign that the Government is pursuing the case. We have decided to defer the reprogramming of $10.35 million in ESF funds for Guatemala under the continuing resolution and are requesting Congress to temporarily defer its consideration of the $6 million in ESF funds requested for Guatemala in the FY 1983 supplemental pending further clarification of the situation.

CARIBBEAN BASIN INITIATIVE

Senator **Kasten**. As you know, this subcommittee very quickly approved the foreign assistance part of the Caribbean Basin Initiative. The other parts relating to tax and also to trade matters have not been approved.

What are the prospects for approval of the rest of the CBI?

Mr. **McPherson**. As you know, a CBI tax and trade provision passed the House at the very end of the last session. I think in large part because there was not time, and it didn't come to a vote in the Senate.

You will have a better judgment on this than I would, but I suspect if it had gotten the opportunity for a vote, it would have passed on the floor of the Senate.

What needs to happen next is to move these provisions through the House. There is a fairly crowded agenda there, but the President has made his great interest clear on several occasions, in several major addresses and in other ways. We think it is realistic to expect to get a trade and tax provision enacted by Congress this year. The logic is so compelling.

We feel that foreign assistance is important. I have talked about the short- and long-term efforts that are being made, but trade is so key and the need to build ties with our neighbors is so obvious, and virtually not disruptive at all to our own situation, that it seems to me we have a good argument.

We appreciate the expeditious help that you gave us last year.

Senator **Kasten**. I think it is important that we get the whole package completed. I think it is important to our relationships in Latin America.

HONDURAS PROGRAM

The program in Honduras is slated for a significant increase in ESF funding.

What is the justification for that significant increase?

Mr. **McPherson**. Honduras has an economy that is based on a couple of export commodities. Like much of the Caribbean Basin area, it is economically very hard hit indeed. It is a part of the world where circumstances, not just in terms of security, have begun to deteriorate. Because of all those factors involved, we feel that an ESF program that can provide strong budget support is very important at this time.

MEXICAN OIL FACILITY

Senator **Kasten**. El Salvador has received foreign assistance over the past few years from both Venezuela and Mexico through their oil facility.

With the decline in oil prices and also with the well-known economic difficulties in Mexico, how has that assistance of Venezuela and Mexico to El Salvador been affected?

Mr. **McPherson**. I don't know of any change in assistance from that oil facility to El Salvador and other countries. There are several countries in the region that have received the benefit of that facility. The reduction in world oil prices will be of some modest help to some of these countries, and I assume that the oil facility will continue on to some degree.

Mr. **Reich**. The Mexico-Venezuela oil facility assistance, which has been a great help to the countries in the region and not just to El Salvador, is tied to the price of oil. The facility makes concessional oil sales to nine Caribbean Basin countries which pay 70 percent of the posted price in cash and hard currency. The remainder, 30 percent, is in effect a credit to the purchasing country.

So, as the price of oil declines, it will still be a help. In other words, it will mean a reduction of the total amount coming back to those countries; but, in effect, the price they are paying is also being reduced. The decline in the price of oil should mean a net improvement in the balance of payments.

Senator **Kasten**. With the economic difficulties Mexico is having, do you think they will continue that arrangement?

Mr. **Reich**. We have not seen any indications that they are planning to reduce this facility, although as they go into the financial money markets, they may reassess their capacity to assist these countries.

ASSISTANCE TO NICARAGUA

Senator **Kasten**. Is the United States still funding private sector programs in Nicaragua, and, if so, what are the funding levels for fiscal year 1983, and what do you project they might be for fiscal year 1984?

Mr. **McPherson**. We are not funding any new private sector projects, but several private sector projects which we funded prior to fiscal year 1982 are still in progress. No new money, however, is proposed for fiscal year 1983 or fiscal year 1984 because the Nicaraguan Government has not allowed us to spend money obligated for the private sector in fiscal year 1982. Accordingly, we don't have any plans to expand on it.

There was, as you indicated, money for private sector activities, $5.1 million, as I remember.

JAMAICA PROGRAM

Senator **Kasten**. In the statement provided for the record, Mr. Reich stated that Jamaica's level of new domestic and foreign investment has been disappointing, economic recovery has been weak, and what economic recovery there has been was due, in part, to the 3-year stabilization program and strong support from the IMF, World Bank, and U.S. foreign assistance programs.

Why then has AID cut the program for Jamaica in 1984?

Mr. **McPherson**. The program was particularly large in fiscal year 1983 because of the CBI money. Actually, we continue on with a very large foreign assistance program in Jamaica, particularly when it is considered on a per capita basis.

President Seaga came in at a very hard time. Sugar prices were falling. They had a dropoff, as a result of the world depression, in bauxite exports. Seaga's economic reforms have been important, and also the tourism industry has done a pretty good job. The hotel occupancy rate is very substantial. I have not seen figures for this winter, but last winter they were remarkable.

COSTA RICA PROGRAM

Senator **Kasten**. Costa Rica is showing a significant reduction in overall funding, $144 million currently compared to the $85 million request for 1984.

Why that big a change in Costa Rica?

Mr. **McPherson**. Again that reflects the CBI special assistance level. Costa Rica deserves and needs continued support from us. The Inter-American Development Bank has several projects——

Senator **Kasten**. I don't understand. I thought CBI money was included in the $85 million.

Mr. **McPherson**. CBI was one shot.

Senator **Kasten**. So when we have Costa Rica at $144 million this year, that is CBI plus what we appropriated?

Mr. **Reich**. It includes the fiscal year 1983 budget and the fiscal year 1982 CBI supplemental appropriation, which was not obligated in fiscal year 1982 but will be obligated in fiscal year 1983.

Senator **Kasten**. In fact, the difference is not as much as $144 million to $85 million?

Mr. **Reich**. That is correct. Our assistance level to Costa Rica shows a continued increase except for that glitch in fiscal year 1983 because of the obligation in fiscal year 1983 of fiscal year 1982 appropriated money. The reason for that, as Mr. McPherson mentioned, is that we paid a lot of attention to the economic policy of the country.

We want, frankly, to make sure our money has the desired effect. So we are tying a lot of our assistance to an IMF agreement. The Costa Rica agreement is moving in that direction. We had made it clear that we were waiting to see that IMF agreement before going forward with the ESF assistance.

We will obligate the remainder of the CBI money by the end of this month.

INDONESIAN POPULATION PROGRAM

Senator **Kasten**. In last year's report the committee called attention to the successful population program in Indonesia and suggested that it not be reduced as was being suggested. It appears from the budget submission that this direction was ignored; in fact, the program has been reduced and reduced substantially.

Why has AID ignored the congressional directive?

Mr. **McPherson**. Let me ask Mr. Greenleaf to comment further. We funded a substantial amount of projects in Indonesia last year, in fact, forward funding the amount of activity that they needed.

We do not think that we have reduced the emphasis and our interest in population efforts in Indonesia at all. Indeed, it is a success story that we need to capitalize on, and we appreciate your interest in it.

I think that continued large amounts of AID funds aren't necessary to continue the thrust of this effort.

Mr. **Greenleaf**. The program has gone down in terms of the 1983 fiscal year, and up again in fiscal year 1984. The primary reason for that is that the Indonesians have been very successful in their population efforts. Indonesia, which is unlike any other country in Asia, is now at the point where they are interested in and able to embark on production of contraceptives themselves. This is the largest cost factor of a population program.

What we have done, working closely with the Indonesian Government, is to phase out the supply of contraceptives. They have moved into that area. Our program is a smaller program in fiscal year 1983 than it was in fiscal year 1982 and has moved into certain urban target areas which have not been emphasized as much as in the past, areas where population growth rates have not gone down. It has also moved into the research aspects which are not as expensive as the actual cost of supplying contraceptives.

We feel this is one of the most successful programs in the world and as the Administrator said, it is an example of a success story where we have continued our interest. We are watching this program closely. If the program slips and the rates continue to go down, we will get back into the program in ways that we had begun to phase out.

Senator **Kasten**. What you are saying, in other words, is you think you are not fulfilling the letter, but you are fulfilling the spirit of the congressional directive?

Mr. **Greenleaf**. That is right. If you look at the numbers in 1983 and 1984, those numbers have gone down. Part is due to forward funding in fiscal year 1982.

LOANS TO PAKISTAN

Senator **Kasten**. In the justification material for Pakistan, you state that Pakistan still faces significant debt service requirements and the Pakistan deficit will continue at the present high level throughout the 1980's. Yet the administration is requesting $75 million in Economic Support Fund loans in 1984 as opposed to grants, $8 million more loans than last year.

This whole debt issue is one that we are going to be facing in different ways, shapes, and forms.

Can you give us more detail on why the administration is increasing loans to Pakistan when we are facing the debt problem?

Mr. **McPherson**. Let me ask Mr. Greenleaf to expand on this.

Senator **Kasten**. Please speak up.

Mr. **McPherson**. Yes; the loan terms are very soft. These are 30- to 40-year loans with a grace period of 10 years or so, and with only a small percentage interest.

We think, with the softness of those loans, that we are not having an impact of any significance at all upon the debt situation of Pakistan.

Mr. **Greenleaf**. In 1983 we had $200 million in the program. The 1984 numbers have gone up to $225 million. So, the loan amount has increased by roughly $8 million, whereas the grant amount is roughly increased by $17 million. In other words, in each year of the 6-year agreement there is a 2 to 1 grant versus loan ratio, and that was agreed upon at the outset.

Although you are right, the loan amount has gone up, the grant amount has gone up double that to make the 2 to 1 ratio.

Senator **Kasten**. Peter commented that the soft nature of the loans was such that it might not have any impact on the debt situation.

What exactly are the terms of the loan, and are there any conditions on the loans as well?

Mr. **Greenleaf**. I cannot give you exact information on the terms of the loans.

Senator **Kasten**. I don't need all the details, but what kind of percentages?

Mr. **Greenleaf**. Between 2 and 3 percent.

CONDITIONS FOR AID TO ZAIRE

Senator **Kasten**. The administration is requesting an appropriation of $20 million for Zaire. I understand that you anticipate that the IMF will be proposing reforms in that country, and that the Economic Support Funds will not be dispersed until those reforms are in place.

We have discussed a couple of other countries here where we waited for IMF to come in.

Is that the case in Zaire, and what is the standing of the so-called reforms?

Mr. **McPherson**. We think the economic reforms in Zaire are very important. There is simply not going to be the kind of progress necessary in that country until those reforms are underway. Those reforms involve reforms in terms of corruption that the regime has begun putting in place.

Mr. **Ruddy**. I think the major obstacle that has surfaced in the press has been the question of corruption. The IMF has said to the Government of Zaire that not only are these reforms to be spoken of, but they are to be in place before the IMF moves. There have been negotiations between Zaire and IMF, and we anticipate there will be an agreement along about June of this year.

On the critical question of corruption the Government of Zaire is in the process right now of making an unprecedented crackdown on corruption throughout the Government through the efforts of the new Prime Minister. While it is too early to tell exactly the extent of this effort, and whether it will be a complete success, we think the Government has done something that is very visible and is dealing with a major problem. We think it is the kind of thing that we should look at critically, but we are impressed by the seriousness with which the Government has undertaken this reform effort.

Senator **Kasten**. You think that you are going to see the IMF conditions agreed to sometime in June?

Mr. **Ruddy**. We think, Mr. Chairman, that as things are progressing now and given IMF's own indication, while we can't speak for the IMF, it seems that the progress is such that there will be some sort of agreement by June.

We have made it very clear, consistent with Congress' direction, that no ESF funds will be dispersed to Zaire absent an IMF agreement.

Senator **Kasten**. We are hopeful there will be progress in Zaire as well. I am pleased with your analysis and your report of the situation.

MANAGEMENT OF SAHEL PROGRAM

For the least couple of years we have been expressing our concern over the management of the Sahel development program.

It does not seem to us that there has been the proper response by AID officials to the concerns expressed in audit reports. I can assure you that if such response is not forthcoming, we will once again go through what we went through the last two times, which is to recommend significant reductions.

This year I have reason to believe that we might have support for the lower funding levels in the House of Representatives, as well. I might add that in the last week or 10 days some AID officials have indicated that they are working on the problem more seriously, and I hope very much that that is true.

What kind of assurances can you give us today that you will do everything you can to rectify the problems which have come to light in the numerous audit reports?

Mr. McPHERSON. Obviously the program can only make contributions if it is run well, and we tighten it up. We have, over the last several months, put into place a number of additional economy and control features.

We are putting in the front end of our new projects more management and to buttress this we are planning to add three new auditors for West Africa. Those auditors will be located in Abidjan or Senegal.

You remember there were things done early by the administration and the Agency to seek an IG office in West Africa. This will be expanding the number of people in that office by three, at least in important part because our concerns parallel your concerns over the Sahel programs.

Senator KASTEN. If this is going on—I can't remember what your answer was last year—you did not say you were going to add three additional auditors. Every time we talked about this program the answer was similar to what you just said.

Are you paying enough attention to it? Is this an important issue to AID?

Mr. McPHERSON. I think it is important because there is a lot of money involved and there are a lot of very important people in the Sahel. It is a tremendously difficult environment to work in, not just physically, but because of lack of government structure and lack of people to do things.

We think that your concerns are real, and we feel them as well.

IMPROVEMENTS IN SAHEL PROGRAM

Mr. RUDDY. If I could comment a little bit, I would like to add a little bit to that. We are not at all satisfied with the accounting system in the Sahel. I don't want to give you the impression that everything is just fine over there, but we have done a number of things which are pretty responsible.

We have checked out various host country accounting systems and that includes in actual numbers about 182 systems. We have instituted very large training programs. We have a $5 million project dedicated specifically to training people in the kind of accounting systems that they are going to need to have so that we can have some basic correlation in details, and so that we know what they are talking about, and they know what we are talking about.

We have all kinds of seminars and training sessions where we emphasize the accounting procedures. We take French-speaking, Francophone Africans, and send some to the University of Pittsburgh for this sort of thing. We will be giving you more details on this in the Sahel report which will soon be transmitted to the Hill.

Peter mentioned the fact that we are trying to get three more auditors out in Abdijan. Also we have a project which the Inspector General is very happy about where we are suggesting that missions as a basic management procedure contract with some of the Big Eight auditors and get them to satisfy the missions at least that things are in order.

The Inspector General, by the way, is in accord with this. We are not trying to end run him or anything else. I went out to the Sahel in November and spent a number of weeks there. The main message I gave to every mission director was that we meant business with this.

I terminated a project when I got a poor audit report from Mali. Believe me, Mr. Chairman, word gets around that we are not fooling around with this. We are taking this very seriously. We emphasized it at the Sahel mission directors meeting and emphasized it again in Zimbabwe at the Africa Mission Directors Conference. The message is very clear that we are serious about this.

We have excellent relations with Inspector General Beckington. We work hand in glove. We have in place now essentially a burglar alarm approach. Where things are going wrong with our periodic reporting systems, we will know when things are going wrong. It is not perfect, but we think we have made some strides in the direction of good management.

Mr. McPherson. We are dealing with some of the poorest countries with the least human capital, in the world. Now, the way to address these problems is to train more people locally and try to monitor the projects in the Sahel more closely. Our effort there started up abruptly, and we began to push a lot of money in fairly quickly years ago. There was not the human capital capacity to handle as much as was going in there.

Senator Kasten. You should have slowed down the money.

Mr. McPherson. Probably 3 or 4 years ago we should have. I think probably too much money went in there, too early. At this juncture we have gone a long way toward building up the manpower capacity. We know now from a lot of experience that we have to be careful about putting out money in a hurry in these countries. The way we are building up the tax program, phasing it in as we go, is important.

In Egypt, too, a lot of the management problems of the last few years arose because we have $1 billion up front at the beginning of each year. The Sahel is another example. There is another increase in the Sahel fund request, but you know that is entirely for Chad. We have $9 million going into Chad. I am sure you are familiar with how that situation evolved.

My point to you is that I think that you have every right to be concerned about the Sahel, and we are, too, and we would like to keep you informed about our progress.

ASSISTANCE TO AFRICAN-AMERICAN INSTITUTE

Senator Kasten. The recent African-American Institute Conference, I understand about 2 months ago, turned out to be basically a harangue against the United States and U.S. foreign policy, and specifically the chairman of the House Foreign Affairs Committee was heckled at the meeting.

My understanding is that AID provides that organization with substantial funds. Do you have any idea how much that is or could it be expressed in terms of percentage how much the African-American Institute is funded through AID; and why, no matter what the percentage is, we are supporting such an organization, particularly one that behaves the way they did a couple months ago?

Mr. McPHERSON. I am very happy to say that we provided none of the funds for the conference in question. Frank, why don't you give the details of our relationship to that organization.

Mr. RUDDY. We have two projects with the African-American Institute. One is called African Manpower Development Phase I and II. Through fiscal year 1982 the project cost was $10,780,000. The fiscal year 1983 program disbursements will be $3,784,660 of which the administrative overhead costs for 1983 will be $1,203,358.

There is a second project called development training program for Portuguese-speaking Africa. It has a life of project fiscal year 1975 through fiscal year 1984 total cost of $9,854,466. Overhead and administrative costs come out to $2,363,922. That breaks out to an estimated $290,000 for fiscal year 1983.

Senator KASTEN. Who else funds the African-American Institute? Is that totally funded?

Mr. RUDDY. The figures I mentioned were for Africa Bureau projects.

Senator KASTEN. Where are the other dollars coming from?

Mr. RUDDY. I don't know that, but I know that it has diverse funding sources. I am just not in a position to tell you what those sources are.

Senator KASTEN. Why are we working with an organization that puts on the kind of meetings that turned out to be a full-scale attack on U.S. foreign policy?

Mr. RUDDY. I think that is a very good question, Mr. Chairman. In the case of the two projects involved, we went through the ordinary contracting procedure.

I think you should know that I was there the last day. Our mission directors' conference started the day after AAI ended. I attended the last day to hear the debate on Namibia. During that debate I got the same impression you did in terms of their reaction to Assistant Secretary Crocker's presentation.

It was startling. I share your concern for the use of Government money to support these kinds of institutions that do these kinds of things. We didn't support that particular activity. We did not fund that conference.

Philosophically I share your point of view. I don't know how, legally and in the ordinary course of the contracting procedure that that could be a basis for deobligating funds for AAI.

Senator KASTEN. Can you tell from your notes whether the two contracts you had with them were competitive bid contracts or did they just go out?

Mr. RUDDY. The cooperative agreement for phase II of the Africa manpower project was competitive; the contract for Development training for Portugese-speaking Africa project was noncompetitive based on predominant capability.

Senator **Kasten**. Do you know if some other agency of the U.S. Government could have funded the conference in question?

Mr. **Ruddy**. That is possible, but I don't know that.

Senator **Kasten**. Do you believe that to be the case?

Mr. **Ruddy**. I have no idea, Mr. Chairman.

Senator **Kasten**. Did AID pay any of the costs of the participants at the conference? In other words, is it possible some of the people working on the other grants were part of the conference?

Mr. **Ruddy**. We paid for three people to attend. Dorothy Height, the president of the National Council of Negro Women, and her assistant, Vivian Derrick, were attending our mission directors conference. They asked to arrive early so they could attend the AAI conference as well.

There was also participation by a person from AID, Irvin D. Coker.

Senator **Kasten**. This kind of spending when we are in the process of trying to build up a consensus for foreign aid and we are going through all this drill, one or two of these kinds of things can destroy 6 months of work by you and whatever other kinds of experts you want to put together.

This is just a silly way to spend American taxpayers' money and I don't think we should tolerate it.

AFRICAN DEVELOPMENT BANK

Senator **Kasten**. Now that the United States has joined the African Development Bank do you anticipate AID will more closely work with that institution in the same way you are now working with the World Bank and with some of the others?

Mr. **McPherson**. We have provided technical assistance to that organization. I would think that our relationships would be reasonably close.

By the way, we have in place with the World Bank, for loans and grants over a certain size, what we call an early warning system where Bank projects are going out to our missions for review, hopefully a long time before the Board of the institution votes on them, so our people in the field can provide input on whether the projects are good projects or not.

I expect we will develop the same kind of relationship with the other banks.

Senator **Kasten**. Does the early warning system make sense?

Mr. **McPherson**. Yes, it makes sense. I expect it will be a year before we are satisfied with the early warning system. We are playing catchup ball now, in that we get into a loan almost too late to change it. It is 6 months or a year before the Board votes on it.

POPULATION PROGRAM IN AFRICA

Senator **Kasten**. The population program in Africa has had a great deal of difficulty in the last several years with large amounts of money being turned back to us because they could not be spent on projects in the various countries in Africa.

What is the current prospect for those programs, and what is the situation as you see it right now?

Mr. McPherson. We need a very strong program in Africa. When you look at where Africa stands in development versus Asia and Latin America, you come to the conclusion that that is really where the developmental problem is. Population is one of their big difficulties.

Kenya, for example, will have a projected 4 percent population increase. For fiscal year 1983 we estimate that we will spend a total of $36 million for population in Africa. Next year we are requesting a total of $43 million. That includes central bureau funded activities and economic support funds in Zimbabwe, by the way, the Sahel program, and the Africa bureau population account.

At the African mission directors conference a few weeks ago, I taped a special presentation about the subject of population and how I wanted to have each individual country sort through whether it should have, and in what ways it should have, a more effective population control program.

Senator Kasten. My question was, What is the current prospect for their ability to work these programs through? There were $3 or $6 million turned back. You just said we need a strong program in Africa, but we need one that can work.

If you have been turning money back that has not been spent, what is the current prospect for these programs working, for getting them organized?

Mr. McPherson. I see Africa in terms of population the way it was in other countries 15 years ago. There are a number of cultural obstacles. There is not great receptivity to population programs. The president of one country told me he was concerned about population. He stood up at one of his national party conferences and gave a big speech about how strongly he endorsed population and family planning.

He stood and said, "In 20 years our country will have so many million people, double the size," and the Congress stood up and clapped. It was not the response he had in mind.

There is not the political sensitivity among the power structure of many African countries to really get into this. It takes time. We are really almost in a beachhead situation in many countries and not even there in others.

I feel there is virtually no more important thing we can do than continue to talk with and sort through the countries one by one, and we will put money into family planning in Africa as fast as we think the moneys will do some good.

On the other hand, we can't——

Senator Kasten. Promise?

Mr. McPherson [continuing]. We can't throw it away. I don't want to say, just to respond to the public interest in this, that we are going to put $3 million in this country and that country when it won't be well spent over a period of time.

ASSISTANCE TO LEBANON

Senator Kasten. You are requesting a significant ESF program for Lebanon.

As I indicated to Bill Schneider in a previous hearing, earlier consultation had yielded the position from the committee that 2-year funding was not justified in this case, and while you would probably receive support from the committee on the Lebanon program in general, it would have to be in the traditional manner of 1-year funding.

For the record, we need to know how much you in fact can obligate in fiscal year 1983. I wonder also if you can give us an update of the overall situation in Lebanon, but more importantly, we need a better idea of exactly what this money is going to be used for, and how it is likely to be used.

Mr. **McPherson**. We are asking for a total of $150 million for fiscal years 1983 and 1984. It is split into a capital equipment fund, $69 million; health facilities, $10 million; small enterprise, $10 million; water, $8 million; and telecommunications, $15 million. Those are the major items, and there are several smaller items.

In addition, we expect that there will be several million dollars in the refugee fund of the State Department which will go for Palestinian refugee concerns.

We have very substantial detail on how we propose to spend this money. If we have not supplied that to you, we will do so.

Managerially it would be a lot easier, and I think wiser, to have this be a one-shot appropriation of money that we could spend in a couple of years. This money would probably be approved by Congress. We hope it is voted on soon, but if it is not voted on soon, we are already well into this fiscal year, and to attempt to get that money all worked out for this fiscal year instead of stretching it over 2 years is managerially difficult.

I understand that this is something of a departure from the usual budgetary process. I hope I can persuade you that I am in a better managerial position if I have it available for a couple of years.

Senator **Kasten**. We can appropriate it for 1984. We just say go through the process.

Mr. **McPherson**. You are saying appropriate so much in a supplemental and so much for fiscal year 1984. I understand that.

Part of my problem is that I don't know how much we would obligate this year and how much we would obligate next year. It is easier to talk about now than it was when we submitted this request a couple of months ago. I know I am arguing for maximum flexibility, but I think it is a more efficient way to do it.

As to how much we will be able to obligate reasonably in fiscal year 1983, I don't have an estimate.

Senator **Kasten**. If we said we were going to do it for 2 years, how much for this year and how much for next year?

Mr. **McPherson**. Obviously we will be anxious to consult with you on this matter. Please take another look at the question because it really would make it easier for us, not just for our convenience, but for purposes of good management.

EGYPTIAN BALANCE-OF-PAYMENTS PROBLEMS

Senator **Kasten**. It is clear that Egypt's balance-of-payments problems are verging on a state of emergency.

Could you give us some background on this problem, how serious you believe the balance-of-payments deficit faced by Egypt is, and how much of the 1984 program will be directed at helping Egypt to solve some of these balance-of-payments difficulties?

Mr. McPherson. About two-thirds of the Egyptian program is fast disbursing, in the sense that we deliver to them Public Law 480 food, which is then sold, which is budgeted for them; otherwise, they would have to buy the food on the world market.

We have a commodity import program of $300 million. A substantial portion of our assistance is fast disbursing. Part of those projects will be, for example, the very large sewer and water projects that President Mubarak put through in principle several weeks ago.

As to the balance of payments situation, Egypt had a phenomenal situation from 1976 up until 1981 or 1982, when things began to come apart. They had very large remittances from all over the Gulf. They had large revenues from the canal. They had and continue to have a fairly substantial foreign aid program, of course, from us, as well as oil revenues.

Each one of those things, except for our foreign aid program, has begun to take a bit of a nose dive. The world economy is down, therefore the canal revenues are down. Oil revenues are down for reasons we all know. Because oil prices are down and other countries are not building all they might, remittances are down. All this has meant that the balance of payments situation in Egypt has gotten tighter.

There is another facet, and that is that the Egyptian policy structure of subsidized food, cheap energy prices, and so forth, has meant basically that consumption, as a portion of GNP, has gone up faster than investment. In effect the policy structure has encouraged imports of food and other things that weren't economically efficient and that had a consumption orientation.

The long-term impact of this is that the Egyptians have a fairly serious balance of payments situation. They don't have serious debt problems, they have been able to borrow some. There is a definite possibility that they will cut back on imports of an investment nature. That we think would be unfortunate, but it might occur.

I don't see them as having an imminent disaster as a result of the balance-of-payment situation. I see this as an unfortunate long-term trend.

They missed the major window of opportunity from 1976 to 1982 and decisions to reform the economy will be harder now, but it is feasible to do those things, and President Mubarak has been saying what we believe to be the right kinds of things in this regard. Now hard decisions are to follow.

FLEXIBILITY IN AID TO EGYPT

Senator Kasten. When President Mubarak visited the United States, he and President Reagan issued a joint communique designed to increase Egypt's flexibility in managing U.S. assistance.

We talked about this a year ago. Included in this communique were plans to finance more on a sectoral basis rather than by specific projects, and also that the administration would seek some kind of deobligation/reobligation authority.

Where are you in this overall process? There has been ongoing negotiation with both the subcommittee and the Egyptians. What steps have you taken to implement this agreement with the President?

Mr. **McPherson**. The sectoral assistance approach has been part of a continuing effort related to policy changes in Egypt. In other words, as the Egyptians began to pay their farmers more, began to make their agricultural sector more efficient, then we said let us put more money into the agricultural sector.

In fact, if a sector is not economically viable, is not working toward greater efficiency, then to put money into that sector is, in our judgment, not to use the taxpayers' money to make a real contribution. It would be inefficient and wasted.

President Mubarak has talked a good deal about economic reforms. He has made some reforms. We are watching closely. We have had a lot of talk with the Egyptians about the sewer and water area, and we think that the kinds of things that President Mubarak is prepared to do complement our aid along those lines.

DEOBLIGATION/REOBLIGATION AUTHORITY

Now, the deobligation/reobligation question is a matter you have taken a great interest in, and I think properly. I have been intensely interested in deobligation because you remember, I think, we were able to catch the President's interest in the early weeks of the administration by going to him with a $28 million check for deobligation of some bad projects.

Frank Ruddy mentioned the Sahel project that we deobligated. Last year we had a total of $60 million in deobligations, many of them projects that simply were not working. We see this as a very important management tool. Now we run into problems, however, in that every time you take money away from a project, it is in effect taking it away from the country.

We are all going to be embarrassed by such deobligations if we are limited to the ability to deobligate without the corresponding ability to reobligate. Here we are in Egypt. We have some projects that we think could be run better. We have had extensive discussions with the Egyptian Government and with our Office of Management and Budget, and our expectations are that in the months ahead we will be coming up to you with something.

The problem is trying to figure out how to do it in such a way that when we reobligate it does not take budget authority to do it.

Senator **Kasten**. We talked about this last year. You really have not come forward to ask for this authority. You don't know exactly how to ask for it; is that the problem?

Mr. **McPherson**. We expect that in the months ahead OMB will be coming forward with something which will address these problems. We have to work out the structures to handle this because of the budget authority question.

We are obviously interested in avoiding budget authority. If we deobligated several projects in Egypt and reobligated for others, and all of a sudden the Egyptian program was increased, this would be a problem.

WEATHER MODIFICATION IN MOROCCO

Senator **Kasten**. As you know, Morocco has been suffering from drought since 1976. As a result of that experience, there has been reduced food production within that country. This has necessitated their importing 4 million tons of wheat along to meet their shortfall.

Obviously one potential aid would be an increase in their rain. The University of North Dakota has developed an advanced aviation program with considerable expertise in this area of agriculture and weather modification. The university was consulted by the Moroccan Government. The Moroccans expressed a desire to initiate a weather modification program.

It is my understanding that an initial $350,000 is needed to get this program underway this year. I think the United States has a great friend in the King, and Morocco has been one of our earliest and closest allies and their friendship is as strong as ever. I hope that your Agency would look into this weather modification project and give it every consideration.

Are you aware of this project or this request?

Mr. **McPherson**. Yes, I am, Senator. In fact, a couple nights ago I met with Governor Olsen of North Dakota, a Senator and a Congressman from that State, the Ambassador of Morocco, and representatives from the University of North Dakota, which would implement the project.

In the last couple of weeks Morocco has had some rain, but that is a temporary solution. There is a long-term problem there. We have gotten a proposal, and we are going to be looking at it carefully. There are a lot of questions on the technology involved.

For example, to increase rainfall in Morocco, you end up decreasing the rainfall someplace else, and there are other problems. In principle certainly it is a matter of real interest and you are absolutely right, the King of Morocco has been one of the most forthcoming people on the President's Middle East initiatives.

Senator **Kasten**. I hope you will give that project every consideration.

That concludes the questions I have. There will be questions submitted for the record from other Senators. I know that Senator Inouye and other members of the subcommittee will have questions. We will submit those questions for response, hopefully in a couple of weeks.

I would like to thank all of you very much. Peter, I thank you for your cooperation in the past couple of years.

Mr. **McPherson**. Thank you, Senator.

SUBCOMMITTEE RECESS

Senator **Kasten**. This concludes the morning hearing. The subcommittee will recess until 2 p.m. this afternoon.

Thank you.

[Whereupon, at 11:20 a.m., Thursday, March 3, the subcommittee was recessed, to reconvene at 2 p.m. the same day.]

[Afternoon Session, 2 O'Clock, Thursday, March 3, 1983]

AGENCY FOR INTERNATIONAL DEVELOPMENT

STATEMENT OF M. PETER McPHERSON, ACTING DIRECTOR, INTERNATIONAL DEVELOPMENT COOPERATION AGENCY, AND ADMINISTRATOR, AGENCY FOR INTERNATIONAL DEVELOPMENT

ACCOMPANIED BY:

- **JOHN R. BOLTON, ASSISTANT ADMINISTRATOR FOR PROGRAM AND POLICY COORDINATION**
- **NYLE C. BRADY, SENIOR ASSISTANT ADMINISTRATOR FOR SCIENCE AND TECHNOLOGY**
- **R. THOMAS ROLLIS, ASSISTANT TO THE ADMINISTRATOR FOR MANAGEMENT**
- **JULIA CHANG BLOCH, ASSISTANT ADMINISTRATOR FOR FOOD FOR PEACE AND VOLUNTARY ASSISTANCE**
- **ELISE R. W. DU PONT, ASSISTANT ADMINISTRATOR FOR PRIVATE ENTERPRISE**
- **CHRISTIAN R. HOLMES, DIRECTOR, TRADE AND DEVELOPMENT PROGRAM**
- **DAVID A. SANTOS, DIRECTOR, AMERICAN SCHOOLS AND HOSPITALS ABROAD**
- **MARTIN D. HOWELL, DIRECTOR, OFFICE OF U.S. FOREIGN DISASTER ASSISTANCE**

INTRODUCTION OF ASSOCIATES

Senator Kasten. The subcommittee will come to order.

This afternoon we will continue the hearing on the fiscal year 1984 request for the Agency for International Development. The principal witness is the Administrator of AID, Peter McPherson, and officials of the AID.

Peter, if you would like to make any statement in addition to what you said this morning; second, if you could introduce the officials that are with you. Those accompanying you can make 2 or 3-minute highlight statements. We have the prepared statements from all of you. Then we will proceed to questions.

Peter, go ahead.

Mr. McPherson. With me are several key officials of AID. Ms. Julia Bloch, concerned with the American schools and hospitals abroad and relations with PVO's; Nyle C. Brady, Assistant Administrator for Science and Technology; John Bolton, Assistant Administrator for Program and Policy Coordination; Thomas Rollis, Assistant to the Administrator for Management; and Elise du Pont, Assistant Administrator for Private Enterprise.

I do not have any further statement myself.

Senator Kasten. We request that you do not make a formal statement, but I thought it would be helpful to have the highlights.

Ms. Bloch.

FOOD FOR PEACE AND VOLUNTARY ASSISTANCE

STATEMENT OF JULIA CHANG BLOCH, ASSISTANT ADMINISTRATOR

Ms. BLOCH. It is a pleasure for me to appear before you as Administrator of the Bureau of Food for Peace and Voluntary Assistance and the Office of Private and Voluntary Cooperation and American Schools and Hospitals Abroad [ASHA.]

To summarize, our fiscal year 1984 development assistance request totals $38.6 million for programs funded from the functional accounts and $7.5 million to ASHA.

Most of our functional account request—$33.1 million—will provide support for the centrally funded PVO grants program administered by the FVA Bureau. This centrally financed support to PVOs and cooperatives will enable them to carry out a wide variety of development programs in agriculture, rural development, nutrition, health, education, and small enterprise.

Last fall, AID issued a policy paper on its relationship with PVO's. The paper provides a policy framework in which AID views PVO's as its development partners, both as intermediaries for AID programs and as independent development agencies in their own right.

Briefly stated, the objectives of this policy are to increase the development impact of AID-supported PVO programs; to discourage undue dependence on U.S. Government financing; to simplify management and administrative procedures relating to AID-funded PVO programs; and to insure that AID funds are used in ways that reflect AID's legislative mandate, yet to do so in a way that is supportive of, and sensitive to, the PVO's unique capabilities as agents of development.

The fiscal year 1984 request also includes $1 million in support of the ongoing development education program as directed by the Biden-Pell amendment. This amendment authorized AID to facilitate widespread public discussion, analysis and review of issues related to world hunger and poverty, particularly by encouraging development education activities through PVO's.

Programs funded by the FVA Bureau comprise only one element in the Agency's extensive and varied support to PVO's. For fiscal year 1984, this proposed support will total over $210 million, exclusive of Public Law 480, title II, commodities and related ocean freight.

Over 13 percent of AID's fiscal year 1984 request for development assistance functional accounts, disaster assistance and Sahel development will be channeled through PVO's.

Our fiscal year 1984 request also will enable continuation of several development-assistance financed activities directly supportive of the food-for-peace program. Largest among them is the title II outreach project, which assists voluntary agencies administering title II programs to target food aid to the more needy population groups.

These food-for-peace support activities are part of AID's broader effort to make increasing use of food aid resources in ways that enhance the developmental impact of Public Law 480 and foster its integration with other assistance activities.

AID is requesting $7.5 million in fiscal year 1984 for the ASHA program. Budgetary constraints and other priority development needs compel a request well below current program funding. Priority will be given to those institutions that best serve as study and demonstration centers for U.S. ideas and practices.

Thank you very much.

Senator KASTEN. Thank you.

[The statement of Ms. Bloch follows:]

PREPARED STATEMENT OF JULIA CHANG BLOCH
ASSISTANT ADMINISTRATOR
BUREAU FOR FOOD FOR PEACE AND VOLUNTARY ASSISTANCE
AGENCY FOR INTERNATIONAL DEVELOPMENT

I am Julia Chang Bloch, Assistant Administrator of the Bureau of Food for Peace and Voluntary Assistance. The FVA Bureau includes the Offices of Food for Peace, Private and Voluntary Cooperation, and American Schools and Hospitals Abroad.

Our FY 1984 Development Assistance request totals $38.6 million for programs funded from the Functional Accounts and $7.5 million for American Schools and Hospitals Abroad.

The predominant portion of our functional account request - $33.1 million - will provide support for the centrally-funded PVO grants program administered by the FVA Bureau to extend and strengthen PVO activities consistent with country development objectives. Current programs and those projected for FY 1984 focus on support of PVO field activities that address country-specific development needs. More specifically, this request includes $11.8 million in Matching Grants; $6.1 million for grants to PVO consortia; $5.2 million for grants to cooperative development organizations; $7.5 million for ocean freight reimbursement and $2.5 million for institution building and support grants. Virtually all of these grant relationships will be on a cost-sharing basis.

This centrally-financed support to PVOs and cooperatives will enable them to carry out a wide variety of development programs in agriculture, rural development, nutrition, health, education, and small enterprise. It will also serve as a vehicle for support of a large number of development activities undertaken by private and voluntary organizations indigenous to the LDCs. Since nearly all of these grants require an investment of the PVO's private resources, they also constitute an important means of strengthening collaboration between the American public and private sector as well as increasing the magnitude of the overall U.S. contribution to economic and social development.

PVO programs funded by the FVA Bureau comprise only one element in the Agency's extensive and varied support to PVOs. For FY 1984, this proposed support will total over $210 million, exclusive of PL 480 Title II commodities and related ocean freight. Over 13% of AID's FY 1984 request for development assistance functional accounts, disaster assistance and Sahel development will be channeled through PVOs. AID's overall support for PVO-administered development programs has increased four-fold over the past decade. This expansion has been accompanied by an even larger increase in privately generated PVO resources.

Last Fall, AID issued a Policy Paper and Operational Guidelines on its relationship with PVOs. The Paper provides a policy framework in which AID views PVOs as its development partners, both as intermediaries for AID programs and as independent development agencies in their own right. Briefly stated, the objectives of this policy are to increase the development impact of AID-supported PVO programs; to discourage undue dependence on U.S. Government financing; to simplify management and administrative procedures relating to AID-funded PVO programs; and to insure that AID funds are used in ways that reflect AID's legislative mandate yet to do so in a way that is supportive of, and sensitive to, the unique capabilities of PVOs as agents of development.

A number of actions have been undertaken or are now underway to fully implement the new AID/PVO policy. These include publication of revised provisions for PVO registration; creation of a greatly strengthened information and data base to better serve both AID and PVO needs; strengthening the role of the Office of Private and Voluntary Cooperation as a central focal point within AID for PVO relationships; and application of non-U.S. Government cash contribution requirements as a condition of eligibility for PVO grants.

Our FY 84 request also includes $1 million in support of the ongoing Development Education program as directed by the Biden-Pell Amendment. This amendment authorized AID to facilitate widespread public discussion, analysis and review of issues related to world hunger and poverty and to increase public awareness of these issues. The program - which was initiated in FY 1981 - consists of three principal activities: a series of media roundtables; educational outreach to bring discussion of hunger and development into the classroom; and the development education grants program.

The development education grants program - introduced in FY 1982 - constitutes our major program element to date. Under this competitive program, AID provides financial assistance on a cost-shared basis to PVOs to encourage a wide variety of development education activities. Projects financed to date include support for local community programs carried out in cooperation with private and voluntary organizations; activities that tap the education potential of the cooperative development organizations; and seminars and workshops for specific target groups such as women, educators, community and business leaders, minorities and youth.

In addition to the preceding PVO programs, our FY 1984 request will enable continued funding of several development assistance-financed activities directly supportive of the Food for Peace program. These are elements of AID's broader effort to increasingly utilize food aid resources in ways that enhance the developmental impact of PL 480, improve the targeting of feeding programs to those in need, and foster the integration of PL 480 with other assistance resources.

The largest of these activities is the Title II Outreach Project, which assists voluntary agencies administering Title II programs to comply with the mandate that food aid reach low-income populations. Through FY 1982, 20 Outreach grants totalling $12.7 million were provided in 16 countries - primarily in Africa and Latin America. While the Outreach Project principally has funded logistic support costs related to expansion and retargeting of Title II programs, we expect it also to serve - to an increasing extent in the future - as a vehicle for strengthening the developmental content and impact of such programs. For FY 1984, we are requesting $3.7 million for Title II Outreach. This is consistent with the findings of a recently completed comprehensive evaluation that found Outreach effective in improving logistic support systems and in enabling Title II to reach greater numbers of needy recipients.

Our development assistance request also includes funding for program support activities such as food storage and handling seminars, regional programming workshops for U.S., host country and PVO personnel, provision of technical advisory services to resolve problems in the field, and research to improve PL 480 programming and allocation. It also finances an active schedule of PL 480 and PVO evaluations.

The American Schools and Hospitals Abroad (ASHA) program assists non-profit schools and hospitals overseas which serve citizens of other countries.

Fiscal Year 1984 marks the 25th anniversary of the ASHA program. During this time, the program has helped U.S.-sponsored institutions carry American know-how to over 50 countries.

Initially responsive to the needs of only a limited number of institutions, mainly in the Near East, ASHA has become a competitive program in which an annual comparative assessment is carried out to determine the impact, need and cost-effectiveness of proposals for support, as well as the degree to which applicants meet established criteria. In the past five years, 26 institutions in developing countries, primarily in Africa, Asia and Latin America, received help for the first time.

Since the beginning of Fiscal Year 1982, projects at 28 institutions have been completed with $35 million of prior year grants. These projects have provided classrooms, laboratories, libraries and U.S. scientific and medical equipment. Such facilities and equipment have permitted institutions in Botswana, Liberia, Malawi, Ecuador, Guatemala, Honduras, Mexico, India, Indonesia, Korea, Philippines, Thailand, Egypt, Greece, Israel, Turkey and the West Bank to increase student enrollment and to improve and expand educational and medical programs. A listing of these completed projects is set forth in the Agency's Congressional Presentation for FY 1984. Other projects already financed by ASHA are at various stages of completion, both in some of the countries noted above, as well as in Brazil, Haiti, Jordan, Lebanon, Poland, Rwanda, Tanzania and Zaire.

In addition to grants for specific projects, $7.7 million was granted in FY 1982 to help a limited number of other institutions sustain ongoing programs and operations, the expenses of which are met primarily from tuition, fees and private contributions. These include the American University of Beirut, the American University in Cairo, the Bologna Center of Johns Hopkins University, the Project HOPE Schools of Health Sciences in the Caribbean and Central and South America, and the worldwide blindness prevention programs of Project ORBIS.

A.I.D. is requesting $7.5 million in FY 1984 for the American Schools and Hospitals Abroad program. Budgetary constraints and other priority development needs compel a request well below current program funding. This will necessitate difficult choices among many worthy applicants. However, the same basic selection process will continue. Priority will be given to those institutions that best serve as study and demonstration centers for U.S. ideas and practices. We will seek in particular to assist those institutions that offer the greatest potential for developing human resources, furthering the transfer of technology and maintaining or improving their own financial well being.

Within AID, the FVA Bureau has principal responsibility for coordinating AID's role in administering the PL 480 program. Food aid serves a variety of objectives--among them economic development, humanitarian, foreign policy and U.S. market development. As a consequence, it has too often been viewed in isolation from our development assistance programs overseas. AID's goal is to strengthen the links of food aid to long-term, broadly based economic growth, and to ensure that food aid is viewed as vital to that linkage. The principal elements of our strategy are:

- Policy reform--In negotiating our food assistance program, we will seek commitments to changes we believe are needed in a recipient country's policies to increase that country's ability to feed itself or to pay for required food imports.
- Private Sector initiative and use of market forces--we will be alert to impediments to the active participation of the private sector in programs to increase food production and improve marketing and distribution facilities.
- Integration of programs--we will ensure that both food aid and non-food aid elements of the foreign assistance programs in less developed countries are closely linked to achieve common objectives. The use of local currencies generated through Food for Peace Title I programs to support development assistance projects in the rural sector is one example.
- Self-help--we will reach agreement with food aid recipients on specific self-help steps they can take to achieve sustained economic growth, and measure progress carefully as additional assistance is considered.

For FY 1984 a Title I program level of $872.0 million is proposed. This includes repayments and reflows of $470.0 million from prior years and $104.0 million to cover the freight differential arising from the legislatively-mandated requirement that at least 50% of the P.L. 480 cargo be shipped on U.S. flag vessels. On the basis of seasonal average prices projected by the Department of Agriculture and the mix of commodities tentatively programmed, this amount will finance shipments of about 3.7 million tons of food aid. By comparison, for FY 1983, allocations against the $859.0 million program level are expected to total 4.1 million tons; whereas in FY 1982 allocations totalled 3.6 million tons against a $808.3 million program level.

Under Title II, a program of $650.0 million is proposed, including $250.0 million for ocean transportation and overland delivery to landlocked countries. On the basis of projected prices, this will finance delivery of the legislatively mandated 1.7 million tons of food which includes the 1.2 million ton subminimum requirement to be programmed through the PVOs and the World Food Program. This compares to FY 1983, where it is planned that our program valued at $650.0 million will provide 1.75 million tons of food, while in FY 1982 1.8 million tons were shipped, with a value of $624.0 million.

Approximately 417,800 tons of food have been reserved in FY 1984, primarily for emergency/disaster needs including refugee feeding. In addition, approximately 890,100 tons of Title II food - valued at $215.8 million - will be donated to the voluntary agencies for a variety of programs for malnourished and needy people in over 40 countries. Of these countries, 90% have annual per capita incomes of less than $795.

About 353,700 tons of food at a cost of $85.0 million will be allocated to the multilateral World Food Program sponsored by the United Nations Food and Agriculture Organization.

SCIENCE AND TECHNOLOGY

STATEMENT OF DR. NYLE C. BRADY, SENIOR ASSISTANT ADMINISTRATOR

Senator **KASTEN**. Dr. Brady.

Dr. **BRADY**. I welcome this opportunity to discuss with you the programs of AID's Bureau for Science and Technology.

During the past year we have taken actions to strengthen the role and effectiveness of science and technology within the United States bilateral economic assistance effort.

To achieve this, the Science and Technology Bureau carries out five primary kinds of activity:

No. 1, Strategic planning;

No. 2, Global research and development activities;

No. 3, Global services;

No. 4, Collaborative research, and

No. 5, Technical backstopping carried out through several areas—agriculture, rural development, and nutrition.

We are all aware of the fact that the world, in spite of the progress made, is barely able to keep up in terms of the extra food to be produced. As a matter of fact, Africa has actually fallen behind.

We design, implement and evaluate agricultural and nutrition programs. In fiscal year 1984 we are proposing $109.9 million, including $50 million for the International Agricultural Research Centers.

In population planning we propose to strengthen support for private voluntary and other nongovernment organizations, strengthen institutions needed for self-sufficiency in population work, insure that couples have as broad as possible a choice of family planning methods, and increase biomedical research to improve methods of fertility regulation.

In fiscal year 1984 we are proposing $119 million for the Bureau's population programs.

The health programs augment the assistance provided by the LDC governments in three ways: By providing immediate expert technical services; sponsoring field research and demonstration projects; and fostering more fundamental long-range research to include technology available for the identification, prevention, and treatment of illness.

We are proposing $20,300,000 for the Bureau's health programs in fiscal year 1984.

In education and human resources we give priority to improving access to and quality of basic education and skills training, correction of inefficiencies in the school system, overcoming shortages of technical, managerial and professional personnel, and strengthening the administrative and management systems.

We are requesting $7,700,000 for centrally funded programs in education and human resources.

Last, in energy and selected development activities the Bureau requests $14,100,000. The activities include energy, environmental management, employment and private enterprise development, regional development, information transfer, and special development studies.

Energy activities will account for about $8,300,000 of this total.

Thank you, Mr. Chairman.

[The statement of Dr. Brady follows:]

PREPARED STATEMENT OF DR. NYLE C. BRADY

Senior Assistant Administrator for
Science and Technology

AGENCY FOR INTERNATIONAL DEVELOPMENT

I am Nyle C. Brady, Senior Assistant Administrator for Science and Technology of the Agency For International Development (A.I.D.). It is a pleasure to be here this afternoon to discuss the programs of A.I.D.'s Bureau for Science and Technology. As many of you know, the establishment of this Bureau was one of the several steps taken by the Administrator to strengthen the Agency's bilateral economic assistance programs and increase the role and effectiveness of science and technology in the Agency's programs. It was an action taken in response to calls from the scientific community, both in this country and the Third World, for the U.S. bilateral assistance program to give greater attention to the role of science and technology in improving the living standards in developing countries and to apply the U.S. scientific and technological advantage to development. Planners and policy-makers in developing countries indicated that they were placing a much higher priority than ever before on building their own institutional capacity to apply science and technology to their development problems. They have challenged the developed, aid-giving countries to redirect their development assistance programs to increase the role of science and technology in their programs.

It is important that we meet this challenge because science and technology - ideas as well as hardware - are basic instruments for sustained, self-managed development. It is crucial that a country have an indigenous capacity to create, adapt and apply a continuing stream of improved technologies to increase productivity in agriculture and other sectors, enhance health and education, and generate new sources of employment.

Improved technology gives LDCs cost effective tools to improve the standard of living of their people and often allows them to bypass other constraints. A.I.D. support for research, in LDC institutions, in U.S. institutions and in international research networks, helps to speed the creation, identification, and adaptation of usable technologies and assures that innovations developed will be suitable for local conditions.

As the Senior Assistant Administrator for Science and Technology, I am strongly committed to helping increase the capability of developing countries to solve the problems which impede their economic growth and social progress. To achieve this end, the Science and Technology Bureau's programs support the principal policy directions of A.I.D.:

- To encourage developing countries to adopt national policies which will promote sustained, broadly-based economic growth.

- To work for an enhanced role for free and competitive markets and private enterprise, both in the United States and in the developing countries, as one of the principal sources of economic progress.

- To support the strengthening of human resources and institutional capacities in developing countries as a major element in economic progress in LDCs.

- And finally, to emphasize the application of science and technology to the needs of developing countries by applying new scientific discoveries and new technology to solving their problems.

To ensure that this is accomplished, the Bureau for Science and Technology carries out five primary kinds of activity:

- Strategic planning of the Agency's improved science and technology programs.

- Global research and development activities such as international health and agricultural research centers partially supported by A.I.D.

- Global services, such as family planning assistance offered by non-profit institutions, each working in several countries and placement of foreign participants in U.S. universities by the Office of International Training.

- Collaborative research to assist regional and sub-regional networks of LDC institutions that cooperate with American institutions.

- Technical backstopping to help A.I.D. Missions design, implement and evaluate projects with significant technical inputs.

These activities are being carried out in several ways:

- By designing, financing and managing contracts and other arrangements with universities, private firms and U.S.

Government agencies to conduct research and development and to provide technical services.

- By initiating pilot projects which address key scientific and technical problems and which field Missions can replicate in other countries and regions.

- By maintaining a core staff of multidisciplinary specialists who can advise and assist Missions in planning, designing and implementing their programs.

- And by providing logistical support services of a technical nature which can best be performed centrally such as the administration of the Agency's participant training program, contraceptive procurement, and the collection and dissemination of development information and statistical data.

RESEARCH PRIORITIES

Late last summer, the Science and Technology Bureau was directed by the Administrator to conduct a review of four key areas of Agency research concern:

- Agriculture - To ensure greater concentration and focus within this area as well as identifying new topics for attention.

- Population - To develop improved family planning methods through biomedical research.

- Health - To undertake biomedical research on tropical diseases that can produce short and medium term results of major importance for developing countries.

- Fuelwood - To work in areas involving forestry as it impacts on energy, taking into account environmental considerations.

This Agency-wide review was carried out under the leadership of various members of my staff along with the Regional Bureaus, Missions and outside experts from the U.S. and the developing world. It was intended to evaluate A.I.D.'s existing research programs and suggest a revised set of research priorities. This review has been completed.

In agriculture the following areas were identified for greater attention:

1) Management Systems for Sustained Production in Less Favorable Environments - the identification and development of plant species and varieties that are especially adapted to problem soils.

2) Minimum Purchased Input System - development and testing of techniques that meet specific needs especially in marginal and fragile soils with minimal demands on purchased inputs such as fertilizer.

3) Crop and Animal Protection (Preand Post-Harvest) by Most Cost-Effective and Environmentally Acceptable Means - the development of varietal resistance to plant diseases, insects, parasitic weeds, and vertebrate pests and the use of biotechnology as a tool in such research.

4) Livestock in Mixed Farming System - special emphasis is needed to develop and evaluate systems for forage production and year-round feeding for both mixed farming and range-pasture enterprises.

5) Food and Agriculture Policy - the analysis of the role of price supports or input subsidies as strategies to foster producer incentives to adopt new technologies and study of the broader social costs and budgetary burdens these measures impose.

6) Institutional Capability to Generate Suitable Technologies and Get them Applied - analysis of factors to explain why some institutions are successful and others are not.

In Contraceptive Research and Development the review indicated that the Agency should:

1) Focus its resources on those methods which appear closest to ultimate use such as copper-loaded and hormone reducing IUD.

2) Bolster its product development efforts.

In Biomedical Research In the Health Sector there were three main priorities identified:

1) Broad based epidemiological field studies.

2) Accelerated development and field application of rapid diagnostic techniques to facilitate epidemiological and clinical studies.

3) Expanded support for field trials and evaluation of recently developed or new drugs and vaccines in areas of high disease prevalence.

In Fuelwood, the highest priorities were as follows:

1) Species assessment and trials, tree improvement and breeding and genealogical exploration.

2) Assessment of land capability and use, land preparation and agroforestry assessment, especially in the arid semi-arid, and specific humid areas.

3) The evaluation of the impact of fuelwood production on soil, water and nutrients.

We are now preparing to put the new priorities into effect by developing implementation plans to reallocate Agency resources. These plans will be prepared in close consultation with host countries and will be incorporated into the FY 1985 budget as well as future budgets.

SECTOR STRATEGIES

In addition to the research priorities exercise, I have been asked to take the lead in developing the sector strategies for each of the Agency's technical programs. The strategies have been drafted by the Sector Councils which provide advice to the Agency and its bureaus on all science and technology matters. The strategies are responsive to Agency sector policies, and will provide the Agency with a plan for ensuring that the policies are carried out by guiding Agency resource allocation and project design. It is anticipated that final strategy papers will be completed within the next several months.

CONTINUING EFFORTS WITH UNIVERSITIES

In the implementation of the strategies we will continue to count on the participation and support of the U.S. university community. However, as I have indicated many times in the past, I feel that in order to transfer science and technology effectively to the developing countries, it is imperative that the Agency develop new approaches to working with the university community.

The first new approach is the development of Memoranda of Understanding (M.O.U.). The M.O.U. is an instrument for projecting a long-term plan of action and cooperation between A.I.D. and selected universities. It defines the technical and geographic areas in which A.I.D. expects to use each university's expertise and identifies a core group of university staff professionals who will be designated for long-term A.I.D. support. The M.O.U. satisfies the university's need to know that involvement in A.I.D. programs will be long-term and continuous. This assurance, in turn, enables each M.O.U. university to make the commitment to maintain a core staff of the most talented professionals for work with A.I.D. So far M.O.U.s have been signed with Colorado State University and the University of Florida, and agreements are being negotiated with Purdue, Washington State, and Utah State universities.

A second mechanism is the joint enterprise contracting mode, which will improve A.I.D.'s access to the substantial resources of smaller universities. The joint enterprise mode is designed to open opportunities to the smaller universities and assure that we are maximizing our access to this talent. It allows these universities to group together to form joint enterprises to undertake activities they would be unable to perform by themselves. The first project using this arrangement is underway in Niger. Tufts University is the lead institution and North Carolina A&T University and New Mexico State University are the smaller participating institutions. We are encouraging other such arrangements.

The third approach is the Dual Employment or Joint Career Corps, under which A.I.D. would be able to utilize university professionals in specific technical disciplines not adequately covered by direct hire staff. By the end of FY 1983, we expect to have approximately 20-25 fully tenured university professionals participating in the Joint Career Corps. We anticipate that this will be a two-way street. It is hoped that exchanges can be arranged to permit a few A.I.D. employees to spend periods of one to two years at the participating universities. We hope that this program will become an integral part of the A.I.D.-university relationship.

The fourth method that we are now working on is Technical Support to Missions (TSM) from U.S. universities. Experience has shown that when a university has provided assistance to the same country over a period of years it can work more effectively in that country, due to the benefit of accumulated knowledge. We now are formalizing these continuous relationships between particular universities and specific A.I.D. Missions. The TSM not only allows the Agency to benefit from specialized accumulated experience, but also permits rapid access to the most current available information. TSMs have already been awarded to Missions in the Dominican Republic and Costa Rica, and they are currently being negotiated for Regional Development Offices in Barbados and Kenya. We expect more to follow as experience is gained.

Finally, before I get to our proposed FY 1984 budget request, I would like to emphasize the fact, as I hope has come out in what I have previously stated, that the Science and Technology Bureau is providing a supportive role to the Agency's bilateral programs. Not only are we assisting in the preparation of strategies and policies, but we are providing substantial input with centrally-funded dollars to many field programs that are being carried out in the LDCs and not in Washington or elsewhere in the United States. It is important to note that a substantial portion of the activities supported by centrally-funded programs are actually taking place in the developing countries. For instance, we plan to provide approximately $50 million for the International Agriculture Research Centers, and $2 million for the International Diarrheal Disease Research Center in Bangladesh. There are also many programs in the Science and Technology Bureau that have a common or similar purpose with the regional bureaus' goals and are managed jointly with them. In Lesotho the Mission and the S&T Bureau are testing the effectiveness of mass media to enhance educational programs; in Ecuador we are working jointly with the Ministry of Agriculture in developing a skills training program. Our Energy Office, the Mission in the Philippines and the Government of the Philippines are managing a bioenergy workshop. The Energy Office has initiated with the Mission in Costa Rica a wood gasification project which will produce electricity. This type of cooperation is occuring on a daily basis and is expected to continue.

Volume V of the Congressional Presentation before you contains detailed descriptions of each of the Bureau's programs. I would now like to take this opportunity to provide a brief overview of the activities in each of our central program areas. I will then be glad to respond to any questions you may have.

AGRICULTURE, RURAL DEVELOPMENT AND NUTRITION

Food production and consumption prospects are seriously deteriorating in a number of low-income, food-deficit countries. The basic causes of continuing hunger and malnutrition in these countries are inadequate food availability and the inability of the malnourished to buy, or otherwise acquire, and consume the food they need.

Real progress has been made toward food and agricultural self-reliance in a number of Asian and Latin American countries but millions of people even in these regions are still impoverished and malnourished. An already serious food crisis is worsening in sub-Saharan Africa where per capita food and agricultural production continue to decline in the majority of countries. Although significant gains in food production have been made throughout the less-developed world, the gap between food production and food demand has been steadily widening due to population growth and rising urban incomes.

Food production statistics tell only part of the story. Pervasive unemployment, the lack of basic health and education services, and a rural income one-third to one-eighth of urban income can only increase large-scale migration from rural to urban areas. In short, the lives of millions of people are now, and threaten to continue to be, circumscribed by a series of interlocking problems which characterize the rural areas of the LDCs -- malnutrition, high infant and child mortality and morbidity, low agricultural production, low incomes, lack of jobs, large families, and depleted natural resources.

The objectives of U.S. food and agricultural assistance are to enable countries to become self-reliant in food, assure an adequate diet and food security to their population, and contribute to broadly-based economic growth.

These objectives will be accomplished by emphasizing the following major elements in food and agricultural assistance: (1) improved country policies; (2) developing human resources and institution capabilities with emphasis on the generation, adaptation, and application of improved science and technology and research; (3) expanding the role of both the LDC and U.S. private sector, and (4) employing all assistance instruments in an integrated manner.

The primary function of the centrally-funded program is to assist LDC institutions to design, implement and evaluate agricultural, rural development, and nutrition programs which are based upon these major elements. Activities included in the program are support of research, technology transfer and adaptation, training, and building institutional capacity.

The FY 1984 program will again see relatively few new projects, with attention being devoted more to consolidation, and particularly to the concentration of resources from both central and regional bureaus in areas of mutually recognized high priority such as water management and farming systems. For FY 1984, we are proposing $109.9 million for the Science and Technology Bureau's agriculture, rural development, and nutrition programs. Nearly half the funds ($50.5 million) will provide core support to the International Agricultural Research Centers network and another one-third will fund technical assistance and other research in agricultural and rural development.

POPULATION PLANNING

Over the past five years, the proportion of population assistance channeled through bilateral agreements compared with centrally-funded projects has risen from 26% to 40% as more LDC governments have begun to request bilateral assistance for national family planning programs. There remains an important need for centrally-funded projects which play a key role in the application of science and technology to developing world problems and the marshalling of private sector techniques and resources for family planning product and service delivery. Centrally-funded programs are critical, especially in parts of Latin America and Africa where U.S. bilateral population programs have not been established or where the bilateral program has been phased out.

As you know, A.I.D. does not provide or promote abortion services, nor does A.I.D. support research on abortion methods. The FY 1984 program proposes to strengthen support for private voluntary and other non-government organizations; strengthen institutions needed for self-sufficiency in population work; ensure that couples have as broad as possible a range of choices of family planning methods, including natural family planning; and increase biomedical research to improve methods of fertility regulation.

Centrally-funded projects serve as the focal point within the Agency for the coordination of research and the transfer of U.S. scientific and technological knowledge to LDCs implementing family planning programs. The United States has and continues to play an important leadership role in the development of new and improved contraceptive technology for use in the LDCs; appropriate, cost-effective family planning service delivery systems; and data collection and analysis technologies. Research, training and information dissemination are designed to increase the involvement of LDC public and private sector institutions so that an institutional base will be created for eventual national program self reliance.

For FY 1984, we are proposing $119.0 million for the Bureau's population program, in addition to the amounts programmed by the regional bureaus, which combined total $212 million. Of the centrally-funded amount approximately $82 million is to support family planning service delivery through private, national and international agencies; approximately $25 million is for development and transfer of technology to improve family planning service delivery, policy development, and program design and evaluation, and approximately $12 million is to support training and information dissemination.

HEALTH PROGRAMS

The majority of people living in developing countries suffer from acute, recurrent, debilitating disease. Without access to an adequate diet, safe drinking water, and basic health care, the consequence of such persistent and widespread infectious disease is early death for many, especially the very young. For the survivors, the capacity to participate in and benefit from development is diminished. In some LDCs as many as half of the children die before reaching the age of five. Hundreds of millions of adults and children are weakened by recurrent diarrheas, respiratory infections, and tropical diseases such as malaria, snail fever (schistosomiasis), river blindness (onchocerciasis), and sleeping sickness (trypanosomiasis). Such widepread death and illness affect all aspects of human life.

A.I.D. is committed to a strong health program which concentrates on improvements in primary health care delivery and increased reseach in support of such programs. A.I.D. experience of the 1970s established that community-based primary health care programs could substantially diminish illness and death in the LDCs and that real improvements in health are necessary for sustained economic development. The basic objective of A.I.D.'s health program is to help developing countries become self-sufficient in providing broad access to cost-effective preventive and curative services. These services are critical not only to lowering mortality, especially among infants, young children and child-bearing women, but also to reducing the toll of serious communicable disease which decreases the productivity of large numbers of people.

Centrally-funded health programs augment the assistance provided to LDC governments by regional bureaus and Missions in three ways: by providing immediate expert technical services; sponsoring field research and demonstration projects; and fostering more fundamental long range research to improve the technology available for the identification, prevention and treatment of illness. A successful example of this has been the malaria vaccine research program which is on the threshold of developing a human malaria vaccine. A.I.D. is requesting $20.3 million in health funds for FY 1984 for these centrally-funded activities.

EDUCATION AND HUMAN RESOURCES

Education is the fundamental requirement for building indigenous institutions to sustain development. Despite recent gains, the need for education and training programs continues to increase. Many developing countries find that: 1) significant numbers of children and adults still lack access to any education and training; 2) education and training which is provided is often inappropriate and fails to provide the skills and knowledge required for employment; 3) education budgets are stretched to fund the ever increasing costs of expanding school systems; and 4) limited administrative and institutional capabilities remain one of the major roadblocks to effective and equitable development.

The Bureau's education and human resources programs respond to these problems by giving priority to improving access and quality of basic education and skills training; correcting the inefficiences of the present school systems; overcoming shortages of critical technical, managerial, and administrative and professional personnel; and strengthening administrative and management systems.

For FY 1984, A.I.D. requests $7.7 million for centrally-funded programs in education and human resources. These funds will support programs in basic education, non-formal education, development communications, development administration, women in development, labor and international training.

ENERGY AND SELECTED DEVELOPMENT ACTIVITIES

Certain development problems are not covered solely by one of the functional accounts. The Energy, Private Voluntary Organizations and Selected Development Activities (SDA) Account allows A.I.D. to deal with the following development areas which cut across functional categories: energy, environmental management, employment and private enterprise development, regional development, information transfer, and special development studies. Centrally-funded Section 106 programs are proposed at $14.1 million in FY 1984.

Energy activities will continue as this account's major central program at $8.3 million in FY 1984. A.I.D.'s energy assistance objectives are designed to help developing countries achieve the gradual reduction of oil imports and the assurance of an adequate supply of energy to meet domestic needs. The centrally-funded program is designed to:

1) Develop and strengthen individual and institutional capabilities in the energy sector through training and technical and advisory assistance.

2) Promote energy planning, policy development and conservation to maximize the productive, efficient use of energy, especially of indigenous resources while minimizing exposure to supply shortages, disruptions and economic dislocations; and

3) Transfer technology so that both new and existing technologies are introduced to permit the development of new energy supplies and the substitution of indigenous resources for imported fuels.

The other major program will be the centrally-funded multisector development activities which is proposed at $5.8 million in FY 1984. These programs are linked to other central program activities funded from the food and nutrition and education and human resources accounts. They include projects in employment and private enterprise development, urban affairs, development information transfer, women in development and special development studies.

Mr. Chairman, I appreciate this opportunity to appear before you today and would now be happy to answer your questions.

MANAGEMENT

STATEMENT OF R. THOMAS ROLLIS, ASSISTANT TO THE ADMINISTRATOR

Senator KASTEN. Mr. Rollis.

Mr. ROLLIS. Our operating expense request preserves and slightly enhances our U.S. direct hire presence overseas. $13,600,000 of the increase is to assist in that. We intend to continue contracting for foreign service nationals and through management improvements will continue the reduction in U.S. personnel here.

SENATOR Kasten. Thank you.

PRIVATE ENTERPRISE

STATEMENT OF ELISE R. W. DU PONT, ASSISTANT ADMINISTRATOR FOR PRIVATE ENTERPRISE

Ms. DU PONT. Mr. Chairman, it is a pleasure to be here before the committee.

I would like briefly to outline a couple of things. This has been an active time for us since our Bureau's inception. We have filled the role of innovator with regard to private enterprise programs in the Agency. We have been active in five areas: LDC investment environment; LDC capital market development; management and vocational training; technology transfer; and investment promotion.

For fiscal year 1984 we are asking for an appropriation of $30.1 million. We can expect to be active in a number of new areas. Let me highlight three, if I might.

In the capital markets area, we will be looking at limited R&D partnerships; expansion of the 222A productive guarantee program; and potential for improvements in the LDC investment environment as opportunities to move in new areas.

We have been asked by several LDC's about assistance in the divestiture of publicly owned enterprises, something in which we think we will become involved.

The third area will be our request for a revolving fund which we believe will enhance our ability to do some cofinancing. We expect this fund to be managed by competent personnel, and we look forward to working with the committee with regard to these areas.

In conclusion, I appreciate this committee's strong support in affording us this hearing.

[The statement of Ms. du Pont follows:]

PREPARED STATEMENT OF ELISE R. W. DU PONT

ASSISTANT ADMINISTRATOR
BUREAU FOR PRIVATE ENTERPRISE
AGENCY FOR INTERNATIONAL DEVELOPMENT

INTRODUCTION

MR. CHAIRMAN AND MEMBERS OF THE SUBCOMMITTEE:

I WELCOME THIS OPPORTUNITY TO APPEAR BEFORE YOU TO DESCRIBE THE ACTIVITIES OF THE BUREAU FOR PRIVATE ENTERPRISE, ESPECIALLY THOSE PROJECTED FOR FISCAL YEAR 1984. WE BELIEVE THAT THESE ACTIVITIES, OVER THE LONG TERM, WILL BE DEMONSTRABLY EFFECTIVE IN FOSTERING ECONOMIC PROGRESS IN THE DEVELOPING WORLD AND, RECOGNIZING THAT A.I.D. FUNDS ARE EXTREMELY LIMITED, IN GETTING THE GREATEST IMPACT OUT OF EACH DEVELOPMENT DOLLAR.

LET ME SAY AT THE OUTSET THAT THE TERM "PRIVATE SECTOR" WHEN USED TO DESCRIBE THIS PROGRAM IS SOMETHING OF A MISNOMER. THE ADMINISTRATION'S PRIVATE SECTOR INITIATIVE IS NOT CONFINED TO ANY ONE ECONOMIC SECTOR. IT IS, RATHER, A METHOD OF ACCOMPLISHING LONG-STANDING DEVELOPMENT OBJECTIVES THAT CUTS ACROSS MANY SECTORS AND INTERESTS. PRIVATE SECTOR, OR PRIVATE ENTERPRISE, PROGRAMS ARE SIMPLY THE USE OF NEW APPROACHES OR MECHANISMS TO ACHIEVE RESULTS IN HEALTH, AGRICULTURE, HUMAN RESOURCE DEVELOPMENT AND OTHER SECTORS TRADITIONALLY ADDRESSED BY THIS AGENCY LARGELY THROUGH PUBLIC SECTOR INSTITUTIONS. AS SUCH, THE INITIATIVE IS FULLY COMPATIBLE WITH A.I.D.'S MANDATE TO MEET BASIC HUMAN NEEDS. INDEED, IT STRENGTHENS AND REINFORCES THAT MANDATE BY HELPING TO BUILD A FOUNDATION FOR SELF-SUSTAINING, EQUITABLE AND BROADLY BASED ECONOMIC GROWTH. THIS IS CENTRAL, WE BELIEVE, TO THE RESOLUTION OF PROBLEMS, INCLUDING THOSE OF MEETING BASIC HUMAN NEEDS, THAT STAND IN THE WAY OF HUMAN PROGRESS IN DEVELOPING NATIONS.

IN THIS STATEMENT, I WOULD LIKE TO REVIEW BRIEFLY THE OBJECTIVES OF THE BUREAU FOR PRIVATE ENTERPRISE AND THE BUREAU'S EVOLVING ROLES WITHIN A.I.D. NEXT, I WOULD LIKE TO DESCRIBE SELECTED PROGRAMS AND PROJECTS CURRENTLY UNDER WAY IN FIVE PRIORITY CATEGORIES. THE BULK OF THE STATEMENT WILL DEAL WITH THE STRATEGIES WE ENVISION FOR FISCAL 1984, BUILDING ON MOMENTUM BEGUN IN THE CURRENT YEAR.

THE BUREAU FOR PRIVATE ENTERPRISE CONSISTS OF FOUR SEPARATE ACTIVITIES. TWO OF THEM - OFFICE OF SMALL AND DISADVANTAGED BUSINESS (SDB) AND OFFICE OF HOUSING AND URBAN PROGRAMS - HAVE BEEN OPERATING UNITS WITHIN A.I.D. FOR SOME TIME AND WERE TRANSFERRED TO PRE FROM OTHER PARTS OF THE AGENCY WHEN THE BUREAU WAS ESTABLISHED. THIS STATEMENT WILL CONCENTRATE ON THOSE ACTIVITIES WHICH ARE NEW TO THE AGENCY UNDER THIS ADMINISTRATION. THESE ACTIVITIES ARE DEVELOPED AND MANAGED BY TWO ADDITIONAL OFFICES, THE OFFICE OF INVESTMENT AND THE OFFICE OF POLICY AND PROGRAM REVIEW.

BUREAU ROLES WITHIN A.I.D.

WITHIN A.I.D., WE HAVE IDENTIFIED TWO PRINCIPAL ROLES FOR THE BUREAU. THE FIRST IS THAT OF EXPERIMENTER.

SERVING AS AN AGENCY "LABORATORY" WE DEVISE AND PARTICIPATE IN INNOVATIVE AND COST-EFFECTIVE FINANCING MECHANISMS TO ATTRACT OUTSIDE FUNDS INTO THE DEVELOPMENT PROCESS. IN ADDITION TO ENCOURAGING U.S. BUSINESS TRANSFERS THROUGH MUTUALLY BENEFICIAL AMERICAN AND LDC BUSINESS VENTURES, WE ALSO ATTRACT FINANCING FROM AMERICAN AND LDC COMMERCIAL LENDING INSTITUTIONS, OTHER U.S. AGENCIES, AND MULTILATERAL INSTITUTIONS SUCH AS THE WORLD BANK'S INTERNATIONAL FINANCE CORPORATION (I.F.C.). EACH EFFORT IS AIMED AT PROVIDING ADDITIONAL RESOURCES FOR SMALLER PRIVATE THIRD WORLD ENTREPRENEURS SO THEY CAN ESTABLISH NEW BUSINESSES TO EXPAND EXISTING ONES, RESULTING IN THE CREATION OF NEW JOBS, THE

DEVELOPMENT OF NEW SKILLS AND THE GENERATION OF STEADY INCOME FOR THEIR WORKERS.

THE BUREAU'S SECOND ROLE IN A.I.D. IS THAT OF EDUCATOR. THIS MEANS PROVIDING ADVICE AND SUPPORT TO THE REST OF THE AGENCY, ESPECIALLY A.I.D. FIELD MISSIONS, IN DEVELOPING NEW PROGRAMS, STRATEGIES AND PROJECTS TO CARRY OUT ADMINISTRATOR MCPHERSON'S AGENCY-WIDE PRIVATE ENTERPRISE INITIATIVE.

THIS EDUCATOR ROLE COMMENCED WITH THE DRAFTING AND CIRCULATING WITHIN A.I.D. OF A POLICY CHARTER FOR THE BUREAU, SPELLING OUT OBJECTIVES AND RATIONALE FOR THE INITIATIVE AND PRINCIPAL AREAS OF FOCUS FOR THE BUREAU. A PRIVATE SECTOR LIAISON COMMITTEE WAS SET UP TO ENSURE CO-ORDINATION OF PRIVATE SECTOR PROJECTS AND PROGRAMS AMONG BUREAUS, TO COMMUNICATE NEW INITIATIVES AND DISCUSS ISSUES OF A POLICY NATURE. THE AGENCY AS A WHOLE BEGAN TO EXAMINE PROJECTS ROUTINELY TO IDENTIFY AREAS WHERE ALTERNATIVES USING MARKET FORCES MIGHT DO THE JOB BETTER. THE BUREAU FOR PRIVATE ENTERPRISE BEGAN WORKING DIRECTLY WITH COUNTRY MISSIONS. THIS OCCURRED, FIRST, IN FIELDING BUREAU PRIVATE SECTOR RECONNAISSANCE TEAMS TO "TARGET" COUNTRIES CHOSEN IN ORDER TO INITIATE OUR PROGRAM ON A SELECTIVE, COST-EFFECTIVE BASIS (THERE ARE NOW 13 OF THESE COUNTRIES), AND THEN IN RESPONDING TO MISSION NEEDS FOR EXPERTISE BY IDENTIFYING, AND TAPPING INTO, U.S. BUSINESS. THIS MISSION SUPPORT ROLE IS ONE OF OUR MAJOR ACTIVITIES AND IS EXPANDING.

MISSION SUPPORT IS ALSO THE PRIMARY FOCUS OF THE AGENCY'S "SET-ASIDE" PROGRAM UNDER WHICH FUNDS WITHIN SELECTED COUNTRY PROGRAM BUDGET ALLOCATIONS ARE EARMARKED FOR PRIVATE ENTERPRISE-RELATED PROJECTS AND PROGRAMS. THE BUREAU FOR PRIVATE ENTERPRISE, WORKING WITH OTHER AFFECTED BUREAUS, PROVIDES ASSISTANCE IN SELECTION, CONCEPT AND DESIGN OF THESE ACTIVI-

TIES; PROJECT MANAGEMENT REMAINS IN THE HANDS OF FIELD MISSIONS.

OBJECTIVE OF THE BUREAU

OUR PRINCIPAL OBJECTIVE IS TO STIMULATE DEVELOPMENT IN THE THIRD WORLD BY HELPING TO STRENGTHEN PRIVATE ENTERPRISE THERE, ESPECIALLY SMALL AND MEDIUM-SIZED BUSINESSES WHICH SERVE AS ENGINES FOR SELF-SUSTAINING GROWTH.

AN EARLY DECISION WAS MADE TO CONCENTRATE ON AGRIBUSINESS. THIS FOCUS RECOGNIZES BOTH THE AGRICULTURAL NATURE OF DEVELOPING ECONOMIES AND A.I.D.'S LONG EXPERIENCE IN AGRICULTURE-RELATED DEVELOPMENT ACTIVITIES. HOWEVER, WHEREAS THE AGENCY'S TRADITIONAL EMPHASIS HAS BEEN ON RESEARCH AND PRODUCTION, WE HAVE FOCUSED ON THE BUSINESS ACTIVITIES AND SKILLS THAT START WITH MARKETS FOR CREATING NEW FARM PRODUCTION AND GENERATE ADDITIONAL EMPLOYMENT, INCOME AND, IN THE CASE OF EXPORTED PRODUCTS, FOREIGN EXCHANGE EARNINGS.

IN STRENGTHENING THESE LDC ENTERPRISES, WE SEEK TO INVOLVE THE AMERICAN BUSINESS COMMUNITY IN THAT PROCESS. THIS SERVES BOTH TO EFFECT THE TRANSFER OF U.S. SKILLS, CAPITAL, TECHNOLOGY AND MANAGERIAL EXPERTISE TO LDC BUSINESSES, AND TO STRETCH LIMITED AID DOLLARS BY ATTRACTING PRIVATE RESOURCES.

PRIORITY AREAS

IN CARRYING OUT ITS OBJECTIVE, THE BUREAU FOCUSES ON FIVE PRIORITY AREAS, PROVIDING ASSISTANCE IN:

(1) INVESTMENT ENVIRONMENT: THE LEGAL, REGULATORY, AND POLICY FRAMEWORK IN LDCS IN WHICH PRIVATE BUSINESS FUNCTIONS AND INVESTMENT DECISIONS ARE MADE.

FOR EXAMPLE, WE HAVE CONTRACTED WITH BUSINESS INTERNATIONAL TO CONDUCT INVESTMENT ENVIRONMENT ANALYSES IN HAITI, IVORY COAST, JAMAICA, SRI LANKA AND ZIMBABWE. THIS WILL PROVIDE BUSINESSES IN THOSE COUNTRIES AND HERE, AND HOST GOVERNMENTS WITH A GRASP OF EXISTING IMPEDIMENTS TO BUSINESS INVESTMENT AND GROWTH, AND HOW TO RESOLVE THEM.

(2) CAPITAL MARKET INSTITUTIONS: PRIVATE INSTRUMENTS (COMMERCIAL BANKS, VENTURE CAPITAL FIRMS, LEASING AND INSURANCE AND EXPORT TRADING COMPANIES, ETC.) WHICH PROVIDE DEBT OR EQUITY FINANCING AND OTHER SERVICES TO BUSINESSES CAN START UP OR EXPAND OPERATIONS.

TO SELECT SEVERAL EXAMPLES BY WAY OF ILLUSTRATION, TO DATE, LOANS TOTALING $9.5 MILLION HAVE BEEN NEGOTIATED WITH PRIVATE INSTITUTIONS REPRESENTING THREE TYPES OF LDC CAPITAL MARKET INSTITUTIONS IN ORDER TO PROVIDE MEDIUM-TERM CREDIT AT FIXED RATES TO SMALL AND MEDIUM-SIZED BUSINESSES. THESE WERE COMMERCIAL BANKS IN THAILAND AND KENYA, A LEASING COMPANY IN PERU, AND A LIFE INSURANCE COMPANY IN JAMAICA. THE TWO BANKS AND THE LIFE INSURANCE COMPANY MATCHED THE BUREAU'S LOANS WITH EQUAL AMOUNTS OF THEIR OWN FUNDS, THEREBY DOUBLING THE LOAN AMOUNTS AVAILABLE FOR SMALL BUSINESS BORROWERS. IN THE CASE OF THE LEASING COMPANY, PERU'S FIRST, THE A.I.D. LOAN HELPED ATTRACT FIVE TIMES THE AMOUNT IN CAPITALIZATION FROM OTHER SOURCES, INCLUDING THE I.F.C. DEPARTING FROM TRADITIONAL A.I.D. FINANCING TERMS, EACH BUREAU LOAN WAS MADE AT RATES REQUIRING THE INSTITUTIONS TO BE COMPETITIVE AND VIABLE IN A NON-SUBSIDIZED ENVIRONMENT.

(3) MANAGEMENT/VOCATIONAL TRAINING: PROVIDING BUSINESS MANAGEMENT AND TECHNICAL SKILLS WHICH ARE IN SHORT SUPPLY IN THE THIRD WORLD, HANDICAPPING BUSINESS DEVELOPMENT AND GROWTH.

AN EXAMPLE OF EFFECTIVE INSTITUTION BUILDING WAS THE BUREAU'S $1 MILLION GRANT TO THE INSTITUTE FOR MANAGEMENT EDUCATION IN THAILAND (IMET). THIS IS A MECHANISM, USING EXISTING INSTITUTIONS IN BANGKOK, OF PROVIDING SHORT-TERM, HIGH-IMPACT COURSES FOR MID-LEVEL THAI MANAGERS ESSENTIAL TO THAILAND'S GROWING BUSINESSES. A SIGNIFICANT FEATURE IS THAT NO ROYAL THAI GOVERNMENT FINANCIAL SUPPORT IS INVOLVED

AND A.I.D.'S PRESENCE WILL PHASE OUT IN A YEAR OR TWO -- LEAVING SUPPORT FOR THE INSTITUTION SOLELY IN LOCAL BUSINESS HANDS.

ANOTHER BUSINESS INSTITUTION IN A "TARGET" COUNTRY, A VOCATIONAL TRAINING INSTITUTE IN PERU, IS BEING AIDED BY THE BUREAU THROUGH A $1.2 MILLION GRANT FOR TECHNICAL ASSISTANCE IN CURRICULA DEVELOPMENT, TRAINING OF INSTRUCTORS AND EQUIPMENT. BEYOND THE A.I.D. GRANT, THIS INSTITUTE IS BUSINESS-SUPPORTED LOCALLY AND RECEIVES NO FUNDS FROM THE GOVERNMENT.

(4) TECHNOLOGY TRANSFER: PROGRAMS THAT TRANSFER APPROPRIATE TECHNOLOGY TO LDC BUSINESSES, HELPING THEM TO COMPETE AND SPUR OUTPUT PER WORKER.

THROUGH A $500,000 GRANT, THE BUREAU IS EXPANDING ACTIVITIES AND GEOGRAPHIC COVERAGE OF THE JOINT AGRICULTURAL CONSULTATIVE CORPORATION (JAC/C), A CONDUIT FOR TECHNOLOGY TRANSFER, TECHNICAL ASSISTANCE TO SMALL-SCALE AGRIBUSINESSES AND INVESTMENT OPPORTUNITY IDENTIFICATION BETWEEN U.S. AND LDC MEMBERS OF JAC COMMITTEES IN SELECTED COUNTRIES. THIS EXPANDS OPERATIONS OF THE ORIGINAL JOINT AGRICULTURAL CONSULTATIVE COMMITTEE WHICH HAS OPERATED IN NIGERIA FOR SEVERAL YEARS. COMMITTEES HAVE BEEN NAMED IN THAILAND AND SRI LANKA AND ARE BEING PLANNED FOR INDONESIA AND THE CARIBBEAN AREA.

(5) INVESTMENT PROMOTION: IDENTIFICATION OF BUSINESS OPPORTUNITIES, INCLUDING THE USE OF NEW FINANCING MECHANISMS, TO STIMULATE SPECIFIC INVESTMENTS IN THIRD WORLD BUSINESSES AND, WHERE APPROPRIATE, JOINT VENTURES WITH U.S. BUSINESSES TO FURTHER DEVELOPMENT AIMS. INCREASINGLY, WE ARE ON THE ALERT FOR INVESTMENTS THAT STIMULATE NON-TRADITIONAL EXPORTS TO EARN FOREIGN EXCHANGE, ESPECIALLY IMPORTANT IN A PERIOD OF MOUNTING LDC EXTERNAL DEBT. THE BUREAU'S ABILITY TO IDENTIFY AND ENLIST AMERICAN PRIVATE SECTOR EXPERTISE PLAYS A ROLE IN THIS.

A CARIBBEAN INVESTMENT PROMOTION OPPORTUNITIES PROGRAM, JOINTLY UNDERTAKEN BY THE BUREAU AND THE OVERSEAS PRIVATE INVESTMENT CORPORATION (OPIC), HAS JUST CONCLUDED.

THE PROGRAM FEATURED NATIONAL ADVERTISING, PUBLICATION OF AN INVESTOR'S KIT TO INFORM SMALL U.S. BUSINESSES, A SATELLITE VIDEOCAST LINKING BUSINESSES IN EIGHT CITIES WITH COUNTERPARTS IN THE CARIBBEAN, AND INVESTMENT MISSIONS TO THE EASTERN CARIBBEAN, HAITI AND JAMAICA. THE PROGRAM REFLECTED THE ADMINISTRATION'S PRIORITY FOCUS ON THE ECONOMIC REJUVENATION OF CARIBBEAN NATIONS. IT ALSO UNDERSCORED THE COMPLEMENTARY NATURE OF O.P.I.C. AND BUREAU ACTIVITIES.

NEW ACTIVITIES

FOR THE BALANCE OF FISCAL YEAR 1983, THE BUREAU WILL CONTINUE TO EXPERIMENT WITH NEW APPROACHES USING PRIVATE ENTERPRISES TO MEET DEVELOPMENT OBJECTIVES, MANAGE THE GROWING PORTFOLIO OF PROGRAMS AND PROJECTS AND CONTINUE INITIATE NEW PROJECTS.

WE PLAN TO ORGANIZE THREE INVESTMENT RECONNAISSANCE MISSIONS AND ONE "MINI-MISSION", EXPAND OUR ROLE AS BACKSTOP TO THE FIELD MISSIONS FOR THE ADMINISTRATOR'S PRIVATE ENTERPRISE INITIATIVE, AND PURSUE SET-ASIDE PROJECTS AT LEVELS OF 10-15 PER YEAR, TOTALLING APPROXIMATELY $150-200 MILLION FOR BOTH FY 83 AND FY 84.

AMONG NEWER MECHANISMS TO MOBILIZE CAPITAL FOR SMALLER ENTERPRISES, WE ARE AND WILL BE CONSIDERING PARTICIPATION IN THE INITIAL CAPITALIZATION OF INSTITUTIONS SUCH AS VENTURE CAPITAL FIRMS, EXPORT TRADING COMPANIES AND OTHER SMALL BUSINESS FINANCING INSTITUTIONS WHICH PROVIDE A RANGE OF OTHER NEEDED BUSINESS ADVISORY AND TECHNICAL SERVICES TO CLIENT COMPANIES.

WE WILL ALSO USE THE PARTIAL LOAN GUARANTEE MECHANISM AUTHORIZED UNDER SECTION 222A OF THE FOREIGN ASSISTANCE ACT (RECENTLY EXTENDED THROUGH SEPTEMBER 30, 1983) AND PROVIDE

THAT GUARANTEE DIRECTLY TO A PRIVATE LDC FINANCIAL INSTITUTION FOR LOANS TO SMALL, RURAL BUSINESS ACTIVITIES ELIGIBLE UNDER THE LEGISLATION.

WE PLAN TO MAKE OUR FIRST DIRECT LOAN TO AN LDC PRIVATE ENTERPRISE WHICH HAS HIGH POTENTIAL DEVELOPMENT BENEFIT AND MAY BE REPLICATED ELSEWHERE, AND ONE PARTICIPATION FINANCING OF AN LDC BUSINESS ENTERPRISE WITH A U.S. COMMERCIAL FINANCIAL INSTITUTION. CO-FINANCING WITH U.S. COOPERATIVES WILL ALSO BE EXPLORED.

FISCAL YEAR 1984

FOR FY 84, WE ARE REQUESTING $26.4 MILLION. THE KEY INITIATIVE FOR FY 84, REQUIRING NEW LEGISLATIVE AUTHORITY, IS A REQUEST THAT A REVOLVING FUND BE ESTABLISHED FOR THE AGENCY, TO BE MANAGED BY THE BUREAU FOR PRIVATE ENTERPRISE.

REVOLVING FUND

ESTABLISHMENT OF SUCH A FUND WOULD PERMIT THE BUREAU TO EXECUTE ITS PROGRAM IN SUPPORT OF DEVELOPMENT OBECTIVES IN AN OPTIMUM AND BUSINESSLIKE MANNER. THIS INCLUDES OUR ABILITY TO ATTRACT OUTSIDE RESOURCES, ESPECIALLY FROM THE AMERICAN BUSINESS AND BANKING COMMUNITIES, FURTHER LEVERAGING A.I.D.'S LIMITED RESOURCES.

THE RATIONALE FOR AND BENEFITS OF AN A.I.D. REVOLVING FUND ARE AS FOLLOWS:

-- IT WOULD BRING A FAR GREATER DEGREE OF ACCOUNTABILITY TO BUREAU OPERATIONS, DIRECTLY LINKING MANAGEMENT RESPONSIBILITY AND PERFORMANCE. IT IS THE KIND OF ACCOUNTABILITY REQUIRED BY PRIVATE INSTITUTIONS AND ORGANIZATIONS IN JUDGING WHETHER TO COMMIT THEIR ENERGIES AND RESOURCES TO DEVELOPMENT PROGRAMS SUCH AS CO-FINANCING.

-- IT WOULD PROVIDE CONTINUITY AND A SENSE OF STABILITY TO THE AGENCY'S PRIVATE ENTERPRISE INITIATIVE, AGAIN A FACTOR IN THE DECISION OF PRIVATE ENTITIES CONSIDERING WHETHER OR NOT TO PARTICIPATE IN THAT PROGRAM.

-- IT WOULD GIVE US MORE FLEXIBILITY TO INNOVATE, RESPOND IN A BUSINESSLIKE MANNER, AND PARTICIPATE IN WORTHWHILE PROPOSALS.

A BUREAU FOR PRIVATE ENTERPRISE REVOLVING FUND WOULD OPERATE AT A $15 MILLION FY 84 LEVEL WITH A TOTAL APPROPRIATION OF $60 MILLION OVER THREE YEARS. WE ARE NOT REQUESTING ADDITIONAL FUNDS FOR IT IN FY 84, ONLY THE AUTHORITY TO CHANNEL EXISTING APPROPRIATED RESOURCES THROUGH THIS MECHANISM. A PORTION OF REVOLVING FUND REVENUES WOULD BE RETURNED TO THE TREASURY, BEGINNING PERHAPS AS EARLY AS THE FOURTH YEAR. WE WOULD ANTICIPATE THAT REVENUES FROM INTEREST, FEES AND OTHER SOURCES WOULD ENSURE GROWTH IN THE FUND ITSELF. WE PROPOSE TO LIMIT SUCH GROWTH TO $100 MILLION AND RETURN ANY AMOUNT EXCEEDING THAT LIMIT TO THE TREASURY.

HIGHLIGHTS OF PROGRAM

IN ADDITION TO THE REVOLVING FUND, MAIN FEATURES OF THE BUREAU'S PROPOSED FY 84 PROGRAM, BY PRIORITY AREA, FOLLOW:

INVESTMENT ENVIRONMENT ($500,000):

A MAJOR NEW THRUST WILL BE BUREAU FINANCING ASSISTANCE TO LDC GOVERNMENTS IN THE DIVESTITURE OF PARASTATAL, OR QUASI-GOVERNMENTAL, ORGANIZATIONS. THE BUREAU HAS BEEN APPROACHED FOR ASSISTANCE BY SEVERAL GOVERNMENTS IN THIS REGARD. IT WILL FOCUS ON AIDING THESE GOVERNMENTS TO DEVELOP STRATEGIES TO DIVEST THEMSELVES OF SELECTED PARASTATAL BUSINESSES.

DEPENDING ON LOCAL REQUIREMENTS AND AVAILABILITY OF FINANCING, THIS WILL INVOLVE INCREASING PUBLIC AND EMYLOYEE PARTICIPATION IN THE OWNERSHIP OF THE BUSINESS. FINANCING WILL PROBABLY INCLUDE (1) A PHASING DOWN TO MINORITY EQUITY POSITION BY THE GOVERNMENT, (2) LOAN FINANCING FROM A.I.D. TO HELP ENCOURAGE THAT DEVELOPMENT, (3) SALE OF STOCK TO THE PUBLIC, AND (4) STOCK PURCHASE BY EMPLOYEES THROUGH VOLUNTARY PAYROLL DEDUCTIONS.

CAPITAL MARKET INSTITUTIONS ($15,000,000):

THIS WILL BE AN AREA FOR CONTINUED EXPERIMENTATION AND, IF THE LESIGLATION IS APPROVED, THESE RESOURCES WOULD FLOW THROUGH THE REVOLVING FUND.

CAPITAL MARKET INITIATIVES THAT COULD RECEIVE PARTIAL FINANCING FROM THE REVOLVING FUND AND OTHER SOURCES INCLUDE CO-FINANCING OPPORTUNITIES.

THE BUREAU PLANS TO INCREASE ITS RELATIONSHIPS WITH FOR-PROFIT COOPERATIVES AND WILL EXPLORE CO-FINANCING POSSIBILITIES WITH THOSE GROUPS. WE WILL CONTINUE TO PURSUE CO-FINANCING WITH U.S. COMMERCIAL BANKS AND MUTLILATERAL INSTITUTIONS TO FOSTER LDC PROJECTS WITH DEVELOPMENT BENEFITS. IN SUCH PROJECTS, THE BANKS WOULD TAKE THE SHORTER MATURITIES THEY PREFER (FOR RISK CONSIDERATIONS) AND A.I.D. WOULD TAKE THE LONGER MATURITIES. THIS ARRANGEMENT ATTRACTS DEBT FINANCING INTO DEVELOPMENT WHERE IT MIGHT OTHERWISE NOT BE MADE AVAILABLE.

THE BUREAU WILL PARTICIPATE, WITH PRIVATE FINANCIAL INSTITUTIONS AND INVESTORS, IN ESTABLISHING LIMITED R&D PARTNERSHIPS WHICH ARE FORMED TO DEVELOP AND APPLY TECHNOLOGIES APPROPRIATE FOR LDC BUSINESSES. PARTNERS IN THESE VENTURES MAY BE LOCAL, JOINT LOCAL/U.S., OR U.S., PROVIDED THE TECHNOLOGIES ARE DEVELOPED SPECIFICALLY FOR ADOPTION BY AND APPLICATION IN LDC BUSINESS ENTERPRISES. IN ALL CASES, THE OBJECTIVE WILL BE TO DEVELOP TECHNOLOGIES WHICH RESULT IN (1) INCREASED LOCAL VALUE ADDED; (2) A TECHNICALLY SKILLED LABOR FORCE; AND (3) RESOLUTION OF CRITICAL SOCIAL AND ECONOMIC DEVELOPMENT PROBLEMS.

DURING FY 1984 THE BUREAU WILL FOCUS CONSIDERABLE ATTENTION ON EXPERIMENTING WITH SELECTED INVESTMENTS IN PRIVATE BUSINESS ENTITIES WHICH DELIVER HEALTH/MEDICAL SERVICES. BUREAU EFFORTS WILL BE TO IDENTIFY AND SUPPORT PRIVATE, SELF-SUSTAINING ALTERNATIVES TO PUBLIC INSTITUTIONS IN THE PROVISION OF SUCH SERVICES.

THE BUREAU WILL EXAMINE METHODS TO PROGRAM THE LOCAL CURRENCIES GENERATED BY THE P.L. 480 PROGRAM AND COMMODITY IMPORT PROGRAM INTO PRIVATE ENTERPRISE-RELATED ACTIVITIES. THE EMPHASIS WILL BE ON CREATING LOCAL, PRIVATE, SELF-SUSTAINING FINANCIAL INSTITUTIONS AND FUNDING FOR LOCAL BUSINESS INVESTMENT.

IN ADDITION, THE BUREAU WILL CONTINUE TO EXPERIMENT WITH SECTION 222A PROJECTS. UNDER THIS PRODUCTIVE CREDIT GUARANTEE PROGRAM, THE BUREAU PARTIALLY GUARANTEES LOANS (UP TO 75 PERCENT) MADE BY PRIVATE INSTITUTIONS IN SELECTED LATIN AMERICAN COUNTRIES TO SMALL RURAL ENTERPRISES THAT CANNOT OTHERWISE RECEIVE CREDIT ON REASONABLE TERMS. THE BUREAU HAS STREAMLINED THIS PROCEDURE TO ELIMINATE HOST-GOVERNMENT DIRECT INVOLVEMENT. THE MECHANISM HAS THE ADVANTAGE OF USING EXISTING LDC RESOURCES WITH NO A.I.D. DOLLAR TRANSFERS. WE ARE ASKING FOR AN EXTENSION OF THIS PROGRAM THROUGH FY 84.

MANAGEMENT/VOCATIONAL TRAINING ($2,000,000):

IN FY 1984 THE BUREAU WILL HELP DEVELOP FORMAL RELATIONSHIPS BETWEEN U.S. AND HOST COUNTRY MANAGEMENT/VOCATIONAL TRAINING INSTITUTES. WORKING WITH SUCH ORGANIZATIONS AS THE AMERICAN MANAGEMENT ASSOCIATION, THE AMERICAN ASSEMBLY OF COLLEGIATE SCHOOLS OF BUSINESS, AND U.S. MANAGEMENT AND VOCATIONAL TRAINING INSTITUTIONS, WE WILL ASSIST IN (1) CURRICULUM DEVELOPMENT, (2) STUDENT/FACULTY EXCHANGE, AND (3) SPECIAL CONFERENCES ON CRITICAL TOPICS IN MANAGEMENT/TECHNICAL EDUCATION.

TECHNOLOGY TRANSFER ($7,400,000):

THE BUREAU WILL INCREASINGLY FOCUS ON A STRATEGY USING MARKET FORCE MECHANISMS IN THE HEALTH/MEDICAL SERVICES SECTOR. WE HAVE BEGUN WORKING WITH OTHER BUREAUS ON AN AGENCY-WIDE PRIVATE ENTERPRISE-ORIENTED HEALTH STRATEGY WHICH WILL FORM THE BASIS FOR OUR PROGRAMS IN THIS SECTOR. COUNCILS, CONSISTING OF PRIVATE BUSINESSES WITH LDC EXPERIENCE IN THE HEALTH SECTOR ARE BEING FORMED TO PROVIDE GUIDANCE TO

THE BUREAU IN THIS AREA. AS PREVIOUSLY INDICATED, WE WILL ALSO EXAMINE LIMITED PARTNERSHIPS AS A MEANS OF FACILITATING THE DEVELOPMENT OF COMMERCIALLY VIABLE HEALTH TECHNOLOGY INVESTMENTS IN SELECTED LDCS.

SUPPORT TO JAC/C AND THE INTERNATIONAL EXECUTIVE SERVICE CORPS (I.E.S.C.) WILL CONTINUE. JAC COUNTRY COVERAGE WILL BE EXPANDED TO INCLUDE AT LEAST ONE ADDITIONAL AFRICAN COUNTRY. ADDITIONAL REGIONAL BUREAU SUPPORT WILL BE SOUGHT FOR I.E.S.C. ACTIVITIES.

INVESTMENT PROMOTION ($500,000):

AGRIBUSINESS WORKSHOPS, BEGUN THIS FISCAL YEAR, WILL BE UNDERTAKEN DURING FY 1984. THESE WORKSHOPS ARE DESIGNED TO BRING TOGETHER U.S. AND LDC AGRIBUSINESSES WITH LOCAL FINANCIAL INSTITUTIONS AND LOCAL SMALL FARMERS. THE BUSINESSES BENEFIT FROM IDENTIFICATION OF JOINT VENTURE AND OTHER INVESTMENT POSSIBILITIES; THE FARMERS BENEFIT FROM TECHNOLOGY TRANSFER AND ASSURED MARKET OUTLETS. THE WORKSHOPS WILL BE INITIATED IN SELECTED LATIN AMERICAN COUNTRIES, BEGINNING IN COSTA RICA THIS SPRING. IN FY 84, THEY WILL BE TRIED IN OTHER AREAS, INCLUDING AFRICA AND ASIA.

BASED ON WORK BY THE HEALTH COUNCILS, THE BUREAU WILL PROMOTE THIS WORKSHOP CONCEPT IN HEALTH-RELATED BUSINESS ACTIVITIES. AS MENTIONED EARLIER, BUREAU EFFORTS IN FY 1984 WILL EMPHASIZE INVESTMENTS IN THE HEALTH SECTOR. CAPITALIZING ON THE EXPERIENCE OF U.S. AND HOST COUNTRY BUSINESSES, THE BUREAU WILL MAKE ITS FIRST INVESTMENTS IN PRIVATE, FOR-PROFIT HEALTH DELIVERY BUSINESSES.

THE POSSIBILITY OF ESTABLISHING REGIONAL INVESTMENT PROMOTION OFFICES BASED ON THE MODEL DEVELOPED FOR THE CARIBBEAN (SUPPORTED BY UNIDO), WILL BE EXPLORED WITH SELECTED AFRICAN NATIONS WHICH HAVE POLICIES CREATING A POSITIVE BUSINESS ENVIRONMENT.

OTHER ACTIVITIES

IN FY 84, THE BUREAU FOR PRIVATE ENTERPRISE IS CONSIDERING INCREASING THE NUMBER OF "TARGET" COUNTRIES TO 18.

ALSO DURING THE COMING YEAR, WE EXPECT TO HAVE COMPLETED AND FULLY INTEGRATED INTO THE BUREAU INVESTMENT STRATEGIES INVOLVING A THIRD SECTORAL AREA, IN ADDITION TO AGRIBUSINESS AND HEALTH/ MEDICAL SERVICES.

ON THE MISSION LEVEL, WE EXPECT TO BE PROVIDING ADVISORY SERVICES TO AT LEAST 20 A.I.D. FIELD OFFICES AND PROVIDING ADVISORY SERVICES TO 8-10 HOST GOVERNMENTS ON INVESTMENT LAWS, CAPITAL MARKET DEVELOPMENT AND DIVESTITURE OF PARASTATALS.

CONCLUSION

IN SUMMARY, MR. CHAIRMAN, WE BELIEVE THAT WE HAVE MADE MUCH PROGRESS IN INTEGRATING THE PRIVATE ENTERPRISE INITIATIVE INTO A.I.D. STRATEGIES AND OPERATIONS AS AN INNOVATIVE AND EFFECTIVE FORCE FOR ACHIEVING DEVELOPMENT OBJECTIVES. WE BELIEVE FURTHER THAT THE FOCUS OF THE BUREAU FOR PRIVATE ENTERPRISE -- ON SMALL PRIVATE ENTERPRISES, ON RURAL DEVELOPMENT, ON HEALTH AND MEDICAL SERVICES DELIVERY, ON EMPLOYMENT AND INCOME GENERATION, TECHNOLOGY TRANSFER AND HUMAN SKILLS DEVELOPMENT -- WELL SERVES THE OBJECTIVE OF MEETING BASIC NEEDS OF THE POOR MAJORITY IN THE DEVELOPING WORLD.

WE BELIEVE THAT OUR PROGRAM FOR FISCAL YEAR 1984 BUILDS ON PROGRESS ALREADY MADE AND GOES FAR TOWARD ASSURING THAT THE PRIVATE ENTERPRISE OPTION REMAINS AN IMPORTANT COMPONENT IN ACHIEVING DEVELOPMENT OBJECTIVES FOR YEARS TO COME.

ALLOCATION TO INTERNATIONAL RICE RESEARCH INSTITUTE

Senator KASTEN. Peter, we will proceed as we did this morning. I will address the questions to you, and you can field them as you choose.

In the Senate report for fiscal year 1983 the Senate directed that an additional $10 million, over and above the regular U.S. contribution, go to the International Rice Research Institute [IRRI]. Those funds come out of the agricultural account.

Can you tell us whether this direction was followed and what is the current U.S. contribution to the IRRI?

Mr. MCPHERSON. In 1982 we provided a total of $44 million to the research centers, a total of six centers. If we were to increase our contribution to the International Rice Research Institute by $4 million, the effect would be to allow some other donor to reduce its contribution by an amount equal to what we would increase.

The Rice Research Institute budget is set by an elaborate process. In short, an increase would simply not use the money efficiently.

Senator KASTEN. The answer is you stayed at $6 million and you did not go to $10 million?

Mr. MCPHERSON. That is correct. You know what I am saying. We simply reduce the contribution of other donors.

Senator KASTEN. There is no way that the total fund will be increased?

Mr. MCPHERSON. It doesn't appear that way. We have an enormous commitment to these international centers; $44 million is a significant portion of our central budget for agriculture. We remain committed to roughly 20 percent of the whole budget of these regional centers.

CONTINUITY IN PROJECT MANAGEMENT

Senator KASTEN. Several recent GAO reports cited the adverse effect of staffing patterns on the agricultural development process. Evidently staff rotations have led to individual projects having a number of different project managers, difficulties in project continuity, delays and, in some cases, failures of some of the projects.

There is one particular example in the GAO report last summer on food conservation where we had a project in Senegal. We had something like six project managers.

Another in the Philippines had four project managers.

These two projects alone represent roughly $20 million in investment.

Can you effectively manage a $1 billion assistance program with a lack of technical staff? What is the staff rotation policy? It seems to me rotating people costs you more money.

How are you balancing these costs with the need to assure continuity?

Mr. MCPHERSON. Since coming to this position a couple of years ago I have shown a great deal of interest in the problem of continuity because I don't know how you can do a job if you are only in it for a short period of time.

Since I became Administrator, our average length of tour has gone from 34 months to 43 months. There are a lot of reasons why people would cut down their tour of duty, which ordinarily would be 48 months: A child problem, a marriage problem, sickness, or there may be a drastic need someplace else.

Frankly, we have to continue to keep the pressure on to keep the tour of duty longer.

Senator KASTEN. You are going to 48 months now?

Mr. MCPHERSON. Ordinarily a person would go to a country expecting to be there for 48 months. However, in countries like El Salvador where there is particular hardship, the length of tour is usually 18 to 24 months. In El Salvador, particularly up until recently, employees have not been able to keep their families with them. A lot of reasons have caused that. Generally, though, we are looking at 48 months.

I have to question whether or not that is too short a time anyway, particularly as we move into a technical assistance mode as opposed to funding capital projects, through resource transfers. We are internally looking at the whole question as to whether or not we should, on a selective country basis, have tours of duty that are longer than 48 months.

Another way we can enhance continuity is to upgrade the level of foreign nationals who are working with us. These foreign nationals are by and large clerical personnel or not unusually high level technical people. We are looking at whether or not we might be able to bring in and keep more senior technical people.

There are a lot of problems with that, pay scales and a lot of things we need to work out with the host governments. My point is that I think continuity, and I am talking not only about 4 years of duty, but several years continuity, is critical for technical assistance programs.

In terms of the number of technical people, agricultural economists and specialists, as well as many others, we have made a concerted effort to recruit additional technicians because we have become, frankly, a very technical program. We are managers of technical people by and large, not technical people directly.

In summary, my response to you is that, in my judgment, in the last couple years we have made progress on continuity, length of tours and the number of technical people in AID but I am not satisfied, and we intend to continue our efforts in these areas.

Senator KASTEN. I don't know how long the tours were for the project managers or the four project managers. You are suggesting these changes were not made by you. They were made at the request of the project manager, he or she for some reason decided to move.

It is not that people at AID said the manager was a specialist in this and was needed in this other place?

Mr. MCPHERSON. Every now and then we have things like Lebanon where I moved a mission director out of Peru to put him in charge of the Lebanon program since he was an outstanding man. We have to keep that at a minimum, though.

The country where our projects make a big impact is by and large one where people have stayed for 6 years.

Senator KASTEN. I think that is what these reports have said, too.

Mr. MCPHERSON. We concur.

INTERNATIONAL EXECUTIVE SERVICE CORPS

Senator **Kasten**. In the 1983 Senate report the committee directed that AID provide the International Executive Service Corps [IESC] with $7.5 million for their program.

Was this carried out?

Mr. **McPherson**. We have in fiscal year 1983 budgeted $6 million to the International Executive Service Corps. This is a pretty good program. There is some question as to how much additional money they can effectively use, especially as we have insisted that they move their focus away from Mexico and Brazil.

We think, by and large, you don't want us to be doing this kind of program in what are essentially middle income countries.

Senator **Kasten**. Mexico needs all the people they can get right now.

Mr. **McPherson**. Not on this level of business operation.

Senator **Kasten**. I do not know what these people are doing.

Mr. **McPherson**. What they are doing is going in to a country and working for several months, let us say, with a couple-million-dollar business providing technical and managerial expertise to resolve business problems. To the extent that we can get the IESC to take on additional functions in poor developing countries and stimulate them—we think it is a good program.

Senator **Kasten**. We directed $7,500,000 be spent on this program.

Mr. **McPherson**. That is correct.

TRADE AND DEVELOPMENT PROGRAM

Senator **Kasten**. The request for the Trade and Development Program [TDP] showed that a near doubling of research was made available in the current fiscal year. It might be helpful if you could expand on the justification for that increase.

Mr. **McPherson**. I think this TDP is a fantastic program. I think the foreign aid program is by and large an investment in America in any case because of the interrelationships of the LDC's with our own interests. TDP is of very direct benefit to us.

What this program does is to finance feasibility studies or portions of feasibility studies. The program is generating some very good things. You know about the EBASCO project which TDP is funding, and which envisions coal being taken from the Illinois River Basin area, moved down to Mississippi, out to the port of New Orleans to Panama and then converted into gas and shipped from Panama to Japan.

If all of this can come together due to our contribution of TDP feasibility study funds, it would be a fantastic boon for America. I hope we can get all the money we can for the program.

PRIVATE ENTERPRISE PROGRAM

Senator **Kasten**. I think it would be helpful for the committee to have a broader statement of the conditions of the private enterprise program, particularly what you learned last year, what you have learned in the 1½ years that it has been in operation, and although Elise spoke briefly on where she thought she was going, can you provide us with some specific examples of success?

Mr. McPherson. At this time or for the record?

Senator Kasten. I would like a little expansion.

Mr. McPherson. Let me give you what to me is a great example. We have given a loan to the Siam Commercial Bank which is a fairly large, privately owned bank in Thailand. We have provided a $2 million loan which the Siam Commercial Bank agreed to match from its own funds to create a $4 million fund. The bank has traditionally operated almost solely in the Bangkok area.

The idea in this situation is to get the bank to operate in more rural areas of the country and to give loans to small agribusinesses, frequently the kind of entities that don't have access to loan funds, as well as provide some management training and business advisory services.

In short, with this loan we were able to help shift resources to areas not traditionally served by financial institutions, business advisory assistance, management training, and capital, and have moved this bank outside of the traditional financing service areas.

In short, we have made a big impact with this loan. It is that kind of combination of transfer of technology, management, and capital that we want to see.

Ms. du Pont. I mentioned in my opening remarks five areas in which we have been active. Let me quickly tick them off again and give you an illustration of each one.

First, we have been very active in the LDC investment environment area. I cite, for instance, the Business International reports that our Bureau has fostered in a number of countries which provide information on the overall investment climate.

Going next to LDC capital markets, there are a number of projects. The Administrator has outlined the Siam Commercial Bank loan as one of the projects.

In addition, we have financed a private leasing company, the first leasing company in Peru. In Jamaica, we used a private insurance company to stimulate capital market development.

In the third area, management and technical training, we have helped establish a training activity for midlevel managers in Thailand, and a vocational training institute in Peru.

Four, you already mentioned the International Executive Service Corps, in which we have been increasing our level of interest.

Fifth, and finally, in the investment promotion area we have been active on a joint basis with OPIC and the Caribbean Basin investment promotion plan.

In addition, we have started with the Joint Agricultural Consultative Committee, a joint venture agribusiness and technology transfer program in several of our target countries.

Mr. McPherson. I may say, Mr. Chairman, that I think this program is getting well underway, with a number of projects in place.

One of the things we have felt strongly we must be sensitive to is the 1973 basic human needs legislation which targets our program toward the poor majority. Hence we are looking at factors in agribusiness, such as the size of the ultimate loan that is given, the employment situation, and so forth, in a particular country.

PRIVATE SECTOR REVOLVING FUND

Senator **Kasten**. You are requesting a revolving fund which would be used to support the private sector program. As you know, revolving funds are controversial at best, especially among appropriators and Budget Committee experts.

I am not sure that the committee would go along with the proposal as it is. Perhaps we might find ways to modify it so that you could alleviate some of the concerns of the Budget Committee, at the same time have the kind of mechanism that you require.

There has to be some kind of checkoff procedure so that we have some kind of appropriation and budget control. We will be happy to try to work with you. The way it is I do not think it is going to fly.

Mr. **McPherson**. I appreciate your comments. We look forward to working with you on how we might structure that. It is an important concept.

One, we think you can have tighter management of these projects if a fund exists, managed by people with the right skills.

Two, as with the Siam Commercial Bank we are talking about loans for 7 to 10 or 15 years, providing relatively short turnover of money in comparison with the kind of project loans we have ordinarily.

Frankly, we would like to get more turnover, more use out of the hard-earned money appropriated by Congress. Hence, my wish to set up some sort of revolving fund contract.

We look forward to working with you to address the legislative concerns you have.

Senator **Kasten**. Senator D'Amato.

Senator **D'Amato**. Thank you, Mr. Chairman.

It is always good to see Mr. McPherson and his capable staff from the Agency for International Development. These dedicated individuals are to be commended for their efforts in the area of international development. Guided by a spirit of cooperation, we have been able to make great strides in contributing to the growth and development of nations located in every minor region of the world.

Having said that, Peter, I know you could probably anticipate my first question, one which I asked last year and the year before.

AMERICAN SCHOOLS AND HOSPITALS ABROAD

Senator **D'Amato**. I am seriously concerned over the administration's fiscal year 1984 request of $7,500,000 for the American Schools and Hospitals Abroad [ASHA] program. As you are aware, this valuable program is being funded at a level of $20 million. As a member of this subcommittee, I have, and will continue to fight to insure that ASHA remains a viable program. I know that the Chairman, Senator Kasten and my distinguished colleague, Senator Inouye, share my sense of concern over the pending proposal. The Foreign Operations Subcommittee has long recognized the significant role which ASHA has played in fostering good will between the United States and other countries through American sponsored educational and health care facilities. Wouldn't you agree that

$7,500,000 is insufficient to effectively continue this important program?

Mr. McPHERSON. My staff handed me last year's transcript in which you asked that. You and I have discussed this program in this room and at other times. Between the administration and the Congress there have been discussions on this that could perhaps have been more productive.

To be candid about it, we are obviously concerned that if we came in with a very high number, Congress might raise it even more. This program, relative to some of our other programs, does not benefit the poor people, poor countries as much as others do. We understand there are some good things to be done for America with this program. We have tried to use the money you appropriate in the best way. Again, you understand my concern, if we came in with a higher number, it might get even higher.

Senator D'AMATO. You are not the culprit in this, nor is AID. What request did you submit to OMB in regard to this account?

Mr. McPHERSON. As you know, Senator, those are figures that Mr. Stockman would be very unhappy if I were to talk about.

Senator D'AMATO. I can appreciate the situation you face.

Mr. McPHERSON. I think appropriately so.

Senator D'AMATO. My understanding is that the level of request for funding under ASHA was considerably higher than the $20 million which was appropriated, is that correct?

Mr. McPHERSON. Yes.

Senator D'AMATO. Obviously there were some rather good projects which we were not able to fund as a result of the limitation of $20 million.

Is that not correct?

Mr. McPHERSON. I don't know. I think on balance we had a good portfolio. I am not sure that really it would be improved substantially with additional money.

Senator D'AMATO The Congress has repeatedly demonstrated its support for the American Schools and Hospitals Abroad program. Simultaneously, the administration has attempted to severely reduce funding the ASHA—a program which has clearly proven its worth. It is important to bear in mind that the level of funding for this program has remained at the same figure for the past several years—in effect, the program has been subject to a reduction equal to the inflationary rate during this period.

While I realize the importance of reducing government spending and the need to address the serious problem of the deficit, I would recommend that OMB look elsewhere for cuts.

PANAMA

Mr. McPherson, could you briefly describe U.S. AID activities in Panama?

Mr. McPHERSON. We have an agricultural representative there. I will provide that information to you for the record, but let me say that there is a good-sized dairy industry in Panama. The sugar industry, as you say, needs some further diversification. There are a lot of areas that might need to be expanded.

One of the problems in Panama is that for the last 10 or 12 years their farmers have not been paid prices equal to the market price. Their prices have been substantially lower. There has been diversification. Panama has a high literacy rate. It has a lot of resources, and there is great potential there.

Let me provide for the record what we are doing in Panama.

My first involvement has been on the price issue. It is very important to have the farmers paid an appropriate amount for their goods to encourage them to produce more.

[The information follows:]

A.I.D. Assistance to the Agricultural Sector in Panama

A.I.D. is presently assisting the agricultural sector in Panama by strengthening the government's capacity to analyze and formulate agricultural policies, to develop and disseminate new technologies, and to protect and conserve the natural resource base of the country.

In FY 1983, A.I.D. plans to obligate $5.9 million for several large agricultural programs. The Agricultural Technology Transfer project (525-0227) will establish an effective system of extension in the most important agricultural area of the country. A major focus of this extension effort will be to teach small farmers new methods of increasing farm production and farm income. Crop diversification and the introduction of new varieties will form an important part of this effort. The Rural Cooperative Marketing project (525-0222) will strengthen rural cooperatives as business-managed, private enterprises providing access to technology and credit for small and medium farmers.

A large part of the ongoing Panama program has been concentrated in the agricultural sector. More than $7.5 million of the $11.6 million FY 1982 A.I.D. program was directed to building the institutional base for developing and disseminating agricultural technology. In addition, we are financing a series of policy studies being carried out by the Ministry of Planning and the Ministry of Agriculture. The agricultural price policy studies initiated with FY 1982 program development and support funds are expected to lead into the design of the Agricultural Policy Planning project. The project will establish a capability in the government to carry out continuing analysis and appropriate revision of policies affecting the agriculture sector.

The National Research Agency, established under the previously funded Agricultural Technology Development project (525-0180), will supply appropriate cost-effective technologies to be disseminated through the new extension system to small and medium farmers. The Watershed Management project (525-0191) is assisting the government to conserve and improve the natural resource base of the land areas draining into Gatun Lake, the major water source for the operation of the Panama Canal. The A.I.D. loan provides technical assistance in administration and improved management practices to the Institute of Renewal Natural Resources, the government's implementing agency for the program, and is financing reforestation programs for the watershed area.

Working closely with the new extension service is the first provincial chapter of a private Rural Youth Organization established in September 1982 through an operational program grant, which has an interchange program with the Future Farmers of America. The Managed Fish Production project (525-0216) completed a major hatchery expansion and 12 community demonstration ponds. Final funding was provided for the Education for Rural Development project (525-0219), under which the University of Delaware provided technical services to the University of Panama's faculty of agronomy. The project provided practical field training for 22 students and technical assistance to improve the quality of agricultural training.

In summary, A.I.D. is seriously concerned with improving agricultural production and small farmer income in Panama. Part of the solution to that development problem is assisting the Panamanian farmer to diversify his cropping systems. We are heavily engaged in that effort.

Attached is a summary of active and proposed A.I.D.-assisted projects in the Panamanian agricultural sector.

SUMMARY OF ACTIVE AND PROPOSED PROJECTS

(IN THOUSANDS OF DOLLARS)

PROGRAM: PANAMA

CP 84-02

PROJECT TITLE	* L PROJECT / NUMBER G	FY OF INITIAL OBLIG	FY OF FINAL OBLIG	TOTAL PROJECT COST AUTHO	TOTAL PROJECT COST PLANNED	-THROUGH FY82- OBLIGATIONS	-THROUGH FY82- EXPENDITURES	-ESTIMATED FY83- OBLIGATIONS	-ESTIMATED FY83- EXPENDITURES	-PROPOSED FY84- OBLIGATIONS	-PROPOSED FY84- EXPENDITURES
AGRICULTURE, RURAL DEV. AND NUTRITION											
GRAINS AND PERISHABLES MARKETING	L 525-0176	75	75	6,200	6,200	6,200	4,111	---	1,500	---	589
AGRICULTURAL TECHNOLOGY DEVELOPMENT	G 525-0160	79	81	1,000	1,000	1,000	153	---	450	---	397
AGRICULTURAL TECHNOLOGY DEVELOPMENT	L 525-0130	79	81	6,000	6,000	6,000	1,237	---	2,500	---	1,500
GROWTH AND SERVICE CENTERS DEV (URBE)	L 525-0185	78	78	10,000	10,000	10,000	4,205	---	3,200	---	2,000
INTEGRATED RURAL DEVELOPMENT	L 525-0186	77	77	9,700	9,700	9,700	567	---	3,000	---	3,500
PROGRAM DEVELOPMENT AND SUPPORT	G 525-0137	64	C	---	---	1,803	1,566	150	287	150	150
WATERSHED MANAGEMENT	L 525-0191	79	79	10,000	10,000	10,000	5,625	---	2,275	---	2,100
ACCESS ROADS	L 525-0192	78	78	10,000	10,000	10,000	4,471	---	3,529	---	2,000
GUAYMI DEVELOPMENT	G 525-0200	79	79	500	500	500	388	---	112	---	---
MANAGED FISH PRODUCTION	G 525-0216	80	83	992	992	942	495	50	325	---	172
RURAL COOPERATIVE MARKETING	G 525-0222	83	86	---	1,500	---	---	---	---	500	100
RURAL COOPERATIVE MARKETING	L 525-0222	83	86	---	6,000	---	---	4,000	1,800	1,000	1,000
AGRICULTURAL TECHNOLOGY TRANSFER	G 525-0227	82	83	1,000	1,000	500	---	500	200	---	300
AGRICULTURAL TECHNOLOGY TRANSFER	L 525-0227	82	83	6,000	6,000	6,000	---	---	350	---	5,000
AGRICULTURAL POLICY PLANNING	G 525-0231	83	84	---	1,000	---	---	500	200	500	350
AQUACULTURE	* G 525-0245	84	84	---	500	---	---	---	---	500	100
AQUACULTURE	* L 525-0245	84	84	---	2,000	---	---	---	---	2,000	---
PRIVATE AND VOL ORGANIZATIONS - OPG'S	* G 525-9999	78	C	---	---	---	---	150	---	150	150
TOTAL FOR ACCOUNT				61,392	72,392	62,665	22,818	5,350	19,728	4,800	19,408
GRANTS				3,492	6,472	4,745	2,602	1,350	1,574	1,800	1,719
LOANS				57,900	65,900	57,900	20,216	4,000	18,154	3,000	17,689

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[*] Refers to the planned project summary sheet

[C] Level of effort activity

FY of final obligation column – All projects in this column with an initial obligation date before December 31, 1982 are based on the authorized date. For all projects with an initial obligation date after December 31, 1982 the FY of final obligation is based on a planned date.

RECONSTRUCTION EFFORT IN ITALY

Senator D'AMATO. I generally have a question dealing with the reconstruction effort in Southern Italy and the application of the funds there.

Let me say that the Agency, under Mr. McPherson's direction, has done an outstanding job in assisting the thousands of individuals devastated by the earthquake which struck the region in 1980. While I am not going into the necessity of continuing our contribution to that area, which contains $18 billion worth of damage, I would like to compliment you and your staff for the concerted effort and the care with which you have been carrying out the programs.

One final area, Mr. Chairman.

ASSISTANCE TO SYRIA

I have been attempting to determine the extent of U.S. assistance to Syria. It is my understanding that there may be some ongoing activities in Syria. If that is the case, I would like to be advised of the extent of U.S. involvement in that nation.

Recent information from the State Department indicates that there has been a very concerted effort on the part of the Soviet Union to rearm Syria in the aftermath of the conflict in Lebanon. I have my own doubts as to whether or not we should make any assistance available to a nation which remains in a state of war with our most valuable ally in the region—Israel.

I have not been given the information which I requested. Can you describe the kind of development projects that are underway which we may or may not be supporting with U.S. funds, the total value of these efforts and who is responsible for the contracts associated with these projects? In addition, how much money, if any, remains in the pipeline?

Mr. MCPHERSON. I need to give the details to you for the record subsequent to appearing, but there is a substantial pipeline involved. The total pipeline is valued at $300 million. A substantial portion of that has been frozen.

Congress in the last year or so has taken a special interest in this, and we think appropriately so. There are obviously very important political overtones to this program. As I say, a large part of the program has been frozen.

Senator D'AMATO. Are you saying that there is approximately $300 million in that pipeline for Syria?

Mr. MCPHERSON. Yes, sir. Congress has not appropriated money for Syria for some time.

I see this $1.8 million for operating expenses in Syria for 1984. What are these funds utilized for?

Mr. MCPHERSON. We do have a staff in that country.

Senator D'AMATO. A staff there?

Mr. MCPHERSON. Yes, sir, that is correct.

Senator D'AMATO. If we didn't provide $1.8 million, we wouldn't have a staff there.

Mr. MCPHERSON. If there was no money appropriated or allowed to be used for staff, we would follow the direction of Congress.

Senator D'AMATO. What is the staff doing there?

Mr. McPHERSON. There are several AID financed projects that are moving forward. A substantial portion is not moving.

Senator D'AMATO. Can you tell me the nature of some of these projects?

PROGRAM IN SYRIA

Mr. McPHERSON. They are capital projects basically, Senator. They are for things like water systems, road construction, rural electrification. They are the kind of project that 5 years ago the Agency might have done a lot of, but which we do substantially less of today.

Senator D'AMATO. We have a staff there, and we are adminstering some projects?

Mr. McPHERSON. Yes.

Senator D'AMATO. Water, electrification, et cetera?

Mr. McPHERSON. Yes.

Senator D'AMATO. We are spending $1.8 million, or thereabouts, for our staff and support for these projects?

Mr. McPHERSON. Yes.

Senator D'AMATO. We have $300 million in the pipeline?

Mr. McPHERSON. Yes.

Senator D'AMATO. Which we may or may not go forward with, is that correct?

Mr. McPHERSON. Yes. I think, it is pretty clear that in the end we will not go forward with at least a portion of this.

NEED TO DEOBLIGATE FUNDS FOR SYRIA

Senator D'AMATO. I find it hard to believe that, at this time in our Nation's history, that we would consider continuing any form of financial assistance to Syria.

It just seems to me that there is some kind of political machinations that when you add them up don't make sense. The American taxpayers would be shocked, to learn that their tax dollars are obligated to provide assistance to Syria, a nation which continues to serve as the base for more than 5,000 Soviet technical advisors in the Middle East.

We ought to move to deobligate these funds. It certainly doesn't make sense to continue this assistance under these circumstances.

Mr. Chairman, I would propose that this subcommittee conduct a special hearing in order to investigate the details of this situation.

It is important that the public be made aware of this shocking situation. I would ask the chairman if he might consider that and take this matter up with the other members of the committee.

Senator KASTEN. We will.

Do you want to respond further to what he has said? There isn't any justification for it, is there?

Mr. McPHERSON. Keep in mind that we have a large pipeline as a result of a series of obligations from several years ago. In fact, for several years, there has been no new money funded for Syria.

They are basically all old projects. The relationship with Syria and the question of deobligation has been one of substantial political sensitivity.

We are happy to discuss further. I think you understand the thrust of what I am saying.

I understand your point, Senator, about the missiles in that country now, and so on.

Senator D'AMATO. If we think that by providing $300 million worth, keeping it in the pipeline and not deobligating it, that we are going to get the Syrians to change their attitude, then there is something lacking in our political sophistication and understanding of power politics and understandng the nature of what is taking place in the Middle East.

Syria is little more than an extension of the Russians.

I would rather build 300 million dollars' worth of roads here in the United States than to build road facilities and electric facilities in Syria.

I thank the chairman for his patience in this matter and for his concern in this matter. I think we should have some extensive hearings with respect to what is the exact nature of these projects, how far have they gone, and in my opinion we should cut it off now once and for all.

I find it very difficult, if not impossible, to vote for or to allow $1.8 million in operating expenses to continue in the fiscal year 1984 budget. I think we are sending the wrong message to the people who don't understand that kind of thing. By the way, if I were they, I would not understand either, I would think we are the big paper tiger over here, if they, by being nice, saying a few words in a diplomatic sense, can continue the American dollar flow after this time, after what they have demonstrated.

I find it hard to believe, and I have to suggest, Mr. McPherson, that I will oppose this. I think my colleagues will join in that opposition.

Mr. MCPHERSON. Thank you, Senator. We look forward to working with you on this issue. There has been some deobligation, and we would like to discuss the matter further.

Senator D'AMATO. Thank you, Mr. Chairman.

Senator KASTEN. Thank you.

AMERICAN SCHOOLS AND HOSPITALS PROGRAM

I want to go back to the ASHA program. If we were to fund ASHA with $7,500,000, what schools and hospitals would get this money?

Mr. MCPHERSON. We have an evaluation procedure, where the applicants are given points. It is a fairly set and reasonable procedure by which the final decisions are made.

I am sure, for example, that the American University of Beirut and the American University of Cairo would clearly be recipients of some part of that assistance.

Senator KASTEN. Do you have any idea what the requests of the American University in Beirut or American University in Cairo are?

Mr. MCPHERSON. I think the requests of those two institutions are in excess of $7,500,000.

Senator KASTEN. I think you are right.

Mr. McPherson. You have taken understandably a great interest in AUB. That is an institution for which since April 1982 we have provided some $15,500,000 out of various spigots. We continue to feel that that institution is critical not just for Lebanon, but for the area.

Senator Kasten. Just forgetting about all the other requests, the American University in Beirut and American University in Cairo would probably be over $7,500,000 right there.

Mr. McPherson. My folks tell me those requests are about $500,000 under the $7,500,000.

Senator Kasten. This issue is one that I strongly agree with Senator D'Amato on. It is not so much the money as it is the game that goes back and forth.

There is another game we are playing. It is not in your house, but we are playing the same sort of game in the Eximbank. The request comes in at levels that are clearly different than the congressional desire, it puts everybody else's program up against artificial limits.

It is lucky that this year we have IDA which is coming in at $1,400,000,000 so that we can balance some of this off because it is going the other way. The fact is that we ought to try to be reasonable.

Those are three examples in which we are clearly going against the directions that we in the Congress are working on.

Mr. McPherson. Let me say it is an unfortunate thing to have what is really the fairly small ASHA account a source of some modest friction or differences between the administration and this committee.

You know my concerns that that account might by pressure of various applicants get a substantial increase. I think we ought to look toward discussions in the next several months so that in another year we don't both pull out last year's transcript.

AID TO LAOS

Senator Kasten. The appropriations legislation of the last several years has contained a prohibition on funding to a number of countries, including Laos. Last year AID provided Laos with disaster assistance under circumstances that I do not understand.

If I understand the justification that was given, a determination was made, as required by the Foreign Assistance Act, that an emergency existed, and the cause of that emergency was the withdrawal of U.S. foreign assistance in 1975.

Mr. McPherson. It was a case of medical emergency. There were some severe health- and disaster-related problems. What we provided was $101,000 worth of medical assistance. There was no argument at any time, to my knowledge, that the disaster related to the termination of assistance several years earlier.

Senator Kasten. Staff tells me that the justification came right out of the State Department documents.

Mr. McPherson. Let us take a look at that. Inasmuch as I was personally aware of this determination, I think my recollection is fairly clear on this.

I am quite certain I never would have approved disaster termination——

Senator **Kasten**. The way it looks to us it would be in violation of the Appropriations Act, certainly an abuse of your authority.

[The information follows:]

Disaster Assistance to Laos

On December 11, 1981, the U.S. Charge William W. Thomas, Jr., made a disaster determination. In his disaster determination Thomas stated, "that a disaster exists in Vientiane within the meaning of the Foreign Assistance Act of 1961, and that the U.S. Government Assistance is warranted." This determination was based on discussions between Dr. A.D. Brandling-Burnett of the U.S. Public Health Service, Dr. Ramdoyal of the World Health Organization, and Charge Thomas which revealed that "medicines . . . necessary for the emergency treatment of diseases common in Laos are unavailable or in short supply. This is particularly serious since many of the patients at Mahosot Hospital are already gravely ill. Mahosot as the principal hospital of Laos is the service of last resort for much of the country. . . . It is certain that Mahosot would be completely unable to cope with a medical emergency resulting from flooding or other natural disasters."

U.N. VOTES BY AID RECIPIENTS

As you know, I was a delegate to the United Nations General Assembly. One of the things that disturbed me was the consistency with which some of the countries, to which we provide assistance vote against U.S. interests on major issues in the General Assembly.

As you are aware, this goes beyond the United Nations to the whole group of associated agencies. India receives close to $100 million of U.S. assistance. Yet on a scorecard measure of U.S. support where plus ten was the best, minus ten was the worst, India came in at minus six. Mali scored minus five. Sierra Leone, minus four.

It seems to me and to a growing number of people in the Congress that somehow, some way we ought to take into account in providing assistance to these countries the kind of help, support and assistance that they provide to us in some of these international agencies.

Do you agree? Why don't we somehow try to work in this direction?

Mr. **McPherson**. As you know, Senator, the law requires us to take into consideration the votes of countries in an international forum such as the U.N. That is one of the considerations that goes into our determination of the level of developmental assistance.

We think that is appropriate. Almost always it gets to be an extremely complicated matter when you sit down and try to figure out country by country because there are usually several different factors that go into this. But I believe, and in fact I think that as you look down the tallies of our assistance you will see that a good argument could be made that in recent years there has been more sensitivity to U.N. votes than there was in past years.

Senator **Kasten**. The U.N. is one example. The U.N. is in the law and report language.

Mr. **McPherson**. Yes, it is. It is not just the U.N., but I think it should also be the other fora in which countries vote. Take a country like Bangladesh—there is a country that provides very constructive leadship among LDC's, and I am proud to point out the substantial contribution that we make to that country.

We don't really have close foreign policy interests with Nepal, but we do have a good foreign aid program there. It is nice to see Nepal consistently following what we think is a constructive line of thinking at the United Nations and other agencies.

My point is that I think a country's vote needs to be taken into consideration, and we believe it is.

NON-GOVERNMENT FUNDING FOR PVO'S

Senator KASTEN. The committee included report language in the 1983 bill indicating that we felt that private voluntary organizations should receive at least 50 percent of their cash contributions from non-Government sources, in other words, in order to qualify, the PVO should have at least half the money not coming from the Government.

This was a signal that we were prepared to now mandate, maybe not 50 percent, but to mandate such a criteria if necessary.

What is the AID's current thinking? How much money should be taken from private sources, and what do you think about our writing into law some kind of percentage mandate?

Mr. MCPHERSON. As you know, within the last year I have signed a requirement that required some 20 percent of the PVO's support to come from private sources. I think that this is an important move. This is different from contracts.

If a PVO performs a contract for AID, there is an account. If they are doing their own kind of work, they have to provide 20 percent. I think that is an important development. The rule will be fully effective in 1984.

I believe we need to watch out how this goes. In time it may well be increased, but we are definitely pushing for a greater private component. I don't believe that an organization can consider itself truly voluntary and independent if substantially all its resources come from Government sources.

Senator KASTEN. Do you have any magic percentage figure?

Mr. MCPHERSON. No, I don't, Senator. I think we ought to let the 20-percent figure become fully effective. We are phasing in and watching it with the idea of seeing how it works and what we should do from there.

If you would, please keep in mind there were a lot of uncomfortable sessions with the PVO community as we announced the 20-percent rule. There was not unanimity on that rule. Some thought we were harsh on that.

I think that we should see how that works for a period of time and evaluate it. In principal we certainly agree with you that they cannot obtain most of their money from the Government and hold themselves out as a voluntary independent organization.

Senator KASTEN. Which they say they are not.

Mr. MCPHERSON. I believe that by pushing the 20 percent or some number such as that we are in fact strengthening them.

I have been on the board of several organizations and when they came to the crossroads, they raised money or died. Some of them died and some became stronger because they went out and got the money. This is what we are doing.

GAO STUDY ON HOST COUNTRY CONTRACTING

Senator **Kasten**. In the GAO study on host country contracting which was released last June, it was concluded AID does not have adequate information on the number and value of host country contracts creating a major problem in financial management weakness which led to contract modification and amendment which thereby increased the contract cost.

To what extent does your use of contractors and the problems associated with such use affect the foreign assistance program costs, and what actions are underway, if any, to reduce these program costs that will be attributable to the contracting problem?

Mr. **McPherson**. Let me deal with host country contracts first, and then talk about contracts generally.

A host country contract is a concept that involves the host country itself using a reasonable bidding process to select a contractor to perform a service. It means that that country performs the contract process which, if they didn't do it, we would have to do with a lot of personnel ceiling implications.

It also is an institutional development concept. If countries can't increase their capacity to enter into contracts and perform services, then they have a long way to go as a government. We have generally thought the host country contract, both in terms of our ceiling problem and because of the need to develop the host country capacity, made some sense.

There are some problems with it, but I think in general it is a good way to go. It might be noted that I have for a variety of reasons moved away from host country contracting for universities.

CONTRACT MANAGEMENT

Let me talk about contracting generally. We began to put a lot of effort into strengthening the management of our program a few weeks after getting to the Agency. As a result, I presented the President with a big check for $28 million worth of deobligations, and I think that helped to catch his interest and excitement about the foreign aid program.

We have continued on with this effort to deobligate. As I was saying this morning, I believe there was some $60 million in deobligations during fiscal year 1982. We expect to continue that effort. That is part of keeping contracting straight; if things don't work out, we terminate.

We put in place a number of changes. I have delegated to the field substantial amounts of the implementation process, to amend contracts, to do a lot of things. Instead of having to run back to Washington and check all that out, the mission director in Lima or Cairo can do a lot of things he could not have done previously.

As in the case of the U.S. Revenue Code, our contracting process was too complicated. We have brought in a couple of experts on contracting to look at this and see if we can simplify these procedures.

We have underway a review of the Agency's implementation process, out of which are going to come a number of changes. For example, I look at AID/Washington as sort of a corporate headquarters of a huge conglomerate where each one of the missions is a subsidiary. We are in the process of developing ratios as to how missions are doing.

I am interested in personnel turnover, in how fast money moves, in how many targets are reached. So that every 2 or 3 months the assistant administrators can look down the list and we will have a balance sheet, if you will, a managerial balance sheet.

All of these things address the whole question of tighter management, of better control up and down the line over contractual concerns.

It is hard to do business in poor countries. It is easy to do business in a place like Jordan where things are not that different from home.

On the other hand, some countries are often disorganized. But we think we are bringing steadily more order and managerial strength to our operations, including the management of contracts which is the heart, of course, of what we do.

Senator **Kasten**. Senator D'Amato.

Senator D'**Amato**. Thank you, Mr. Chairman.

IMPORTANCE OF DEOBLIGATION

I can't help but say I would like to commend you for the deobligation of those contracts that don't make sense for whatever the reasons, unsound management, lack of capacity, maybe lack of political stability.

I again recognize this may be a so-called politically sensitive matter, but if not us, if not the Senate to ask the question again why $300 million after all this time in the pipeline, then who?

So I would raise to you again and express to you this Senator's concern, and I believe the concern of others, certainly the chairman has expressed his interest in this matter, in terms of when are we going to move to deobligate the entire $300 million in the pipeline?

QUESTIONS ON SYRIA PIPELINE

I say this to you because we have written to you, my staff has, in the past month. We have not received any answers, let alone a satisfactory explanation in terms of how much money, when were the contracts entered into, what was the scope of these contracts, what were the services to be rendered?

I certainly think in connection with that we would like to have a response. So let me ask you at this time will you respond to those inquiries that we have made to you so that when we do have a hearing, we will be in a position not to get this information for the first time, and we can have a meaningful hearing with respect to this?

I understand again the so-called great political debate that may be produced as a result of this. But to be quite candid with you, I think maybe some of us in the Senate may even have a better perception than some people back at State with respect to what is good and what is not good. After all, we are elected by the American people for that purpose.

So, will you provide us the information that we request prior to that hearing?

Mr. McPHERSON. Of course, Senator.

Senator D'AMATO. I would hope you feel assured in knowing that we will be holding those hearings.

Mr. McPHERSON. Naturally we will provide all the information we have, sir.

Senator D'AMATO. Then maybe we can present to the President a big check for $300 million instead of $28 million, and we will take great pride in that.

I thank the chairman for his patience.

[The information follows:]

LETTER FROM M. PETER MCPHERSON

APR 18 1983

Dear ~~Senator D'Amato~~ Al:

This letter responds to the questions you raised during my testimony before the Senate Appropriations Committee on March 3rd regarding: (1) A.I.D.'s progress in deobligating the funding "pipeline" in Syria; and (2) detailed information on A.I.D.-financed contracts in Syria.

Between FY 1975 and FY 1979, A.I.D. obligated a total of $438 million for Syrian development efforts. No additional funds have been obligated for Syria since FY 1979. As of December 31, 1982, $180.4 million has been expended to implement these activities, and $11.5 million has been deobligated in keeping with standard Agency deobligation policies and procedures. This left undisbursed obligations, or "pipeline," of $246.1 million. Undisbursed obligations fall into two categories: (a) those funds contained in fully binding contracts for provision of goods and services underway, but not yet disbursed, as well as (b) those funds obligated but not yet "committed" or under contract.

In April 1981, in accordance with Congressional guidance, the Department of State agreed with Congress to freeze that portion of the pipeline not "committed" as of April 9, 1981. By "committed" funds we meant those funds that were subobligated or earmarked for (a) signed contracts; (b) issued invitations for bids; (c) negotiated procurements for which detailed negotiations were underway; (d) projects involving the "fixed amount reimbursement" payment procedure for which designs had been approved by A.I.D.; and (d) participant training, where training plans with U.S. institutions (including AUB) had been initiated.

As of December 31, 1982, the "committed", or active, component of the pipeline was estimated at $146.7 million, while the uncommitted or frozen component was estimated at $99.4 million. (These figures are estimates because a number of the contracts are cost-reimbursement contracts or have cost-adjustment mechanisms, and so the final amount will not be known until completion.) In accordance with the State Department's agreements with Congress, A.I.D. has been implementing only the "committed" portion of the pipeline.

In reaching this agreement there was concern that unilateral deobligation would substantially injure U.S. contractors, and would involve A.I.D. in a complicated and expensive claims process, including the potential outlay of substantial additional U.S. Govern ment funds. The possibility of litigation over contractor claims exists despite inclusion of "termination for convenience" clauses in direct AID contracts; and most of the contracts under the Syria program are host country, not A.I.D. direct, contracts.

We expect to deobligate the uncommitted (frozen) funds in any given project after the specific terminal dates under the project or loan agreement are reached. A.I.D. has been exercising, and will continue to exercise, extreme care in the timing of any normal program deobligation actions in fulfillment of our obligation to the Congress. With respect to projects under implementation, once project goals have been attained, AID will deobligate any unexpended balances as soon as practical pursuant to our legal obligations.

A.I.D. has deobligated in FY 1982, or will deobligate in FY 1983, the following funding:

Project	Amount Deobligated ($Millions)	FY
Euphrates Basin Irrigation Maintenance	10.488	1982
Commodity Import Loans	1.021	1982
Development of Health Services	.106	Proposed in FY 83
Euphrates Basin Irrigation Maintenance	.643	Proposed in FY 83
Expected Total Deobligations by end FY 83	12.258	

We have compiled the enclosed data concerning contracts currently in effect under the Syria program. These data are based on information currently available here in Washington. These data should be regarded as preliminary and tentative, however, since some of the records (particularly for the FAR and participant training activities) are kept in the AID Mission in Damascus. We are currently checking with our Mission to obtain these additional data. Please let us know if this office can be of further assistance.

I believe my staff fully briefed your people about this whole situation.

Warm regards

M. Peter McPherson

ACTIVE AID-FUNDED CONTRACTS IN SYRIA
(As of 4/15/83)

Grants

Project No. and Title	Contractor/Supplier	Date RFP Issued	Date Contract Signed	Contract Amount ($000)	Contract Purpose
267-0002 English Language Training Center	Georgetown University	3/4/77	8/3/77	1,891	To assist the Government of Syria improve English proficiency of potential A.I.D. sponsored participant trainees and selected Syrian Government officials and to establish a viable English Language Training Center (ELTC) staffed by Syrians as teachers of English, replacing U.S. contract personnel of the ELTC.
276-0003 Argricultural Education and Livestock Production	University of Minnesota	12/27/77[1] 2/26/81	4/12/82	6,000	To expand University of Damascus educational and research activities, especially development of a graduate program leading to Master of Science Degree in fields of nutrition, poultry and dairy science. Some livestock are being provided to the University farm so students can learn "hands on" animal husbandry practices.
276-0004 General Participant Training	Various U.S. universities and training institutions	N.A.	2/27/75	7,108	To provide specialized training in the U.S. for key Syrian officials, and academic training in development related fields primarily for faculty members of Syrian universities.

ACTIVE AID-FUNDED CONTRACTS IN SYRIA
(As of 4/15/83)

Grants

Project No./ Title	Contractor/Supplier	Date RFP Issued	Date Contract Signed	Contract Amount ($000)	Contract Purpose
276-0005 Technical Services and Feasibility Studies II	Various U.S. universities and training institutions	N.A.	7/12/78	3,500	To finance the cost of technical advice, feasibility studies and other consulting services to be carried out by U.S. and Syrian individuals, consulting firms or educational and other institutions. A total of 74 participants have been trained.
276-0006 Development of Health Services	Medical Service Consultants, Inc.	3/78	10/26/79	522	To provide technical services to the Ministry of Health in their planning and survey design.
	Personnel Services Contract with Stephen Fabricant	N.A	2/23/78	154	To provide technical assistance to the Ministry of Health in maintenance and repair of hospital equipment.
276-0019 Technical Health Institute	Medical Service Consultants, Inc.	2/14/79	9/17/79	4,671	To provide technical services, equipment and training to the Technical Health Institute for retraining of auxiliary health personnel.

ACTIVE AID-FUNDED CONTRACTS IN SYRIA
(As of 4/15/83)

Grants

Project No./ Title	Contractor/Supplier	Date RFP Issued	Date Contract Signed	Contract Amount ($000)	Contract Purpose
276-0020 Soil Survey/Land Classification	Louis Berger International, Inc.	N.A.	10/10/79	2,200	To Strengthen the Government of Syria's capacity to undertake and maintain a current inventory of land and soil resources and to perform the necessary analysis and interpretations of these data to guide policy formulation and decision making in regard to land soil resource allocation and use.
276-0026 Technical Services and Feasibility Studies III	Various U.S. and Syrian individuals, consulting firms and educational institutions	N.A.	7/12/78	2,000	To finance the cost of technical advice, feasibility studies and other consulting services to be carried out by U.S. and Syrian individuals, consulting firms or educational and other institutions.
	Louis Berger International, Inc.			(1,500)	To conduct a comprehensive transportation sector study.
276-0041 National Remote Sensing Center	Transcentury Corporation and Technical Development Corporation (Host Country Contract)	5/22/80	5/20/81	3,500	To provide technical assistance, training and commodities for the establishment of Syria's National Remote Sensing Center.

ACTIVE AID-FUNDED CONTRACTS IN SYRIA
(As of 4/15/83)

Loans

Project No. and Title	Contractor/Supplier	Date of[2] AID Commitment	Contract Amount ($000)	Contract Purpose
276-0008 Damascus Water Supply I	Gilbert Associates, Inc.	1/27/77	1,330	To provide architechtural and engineering services for construction of the Damascus City Water Supply system.
	U. S. Pipe	12/2/80	18,654	To import equipment for the Damascus Water Supply system
	Caterpillar Tractor Co.	4/3/81	1,898 1,389	To import equipment for the Damascus Water Supply system
	Meuller Co.	4/3/81	3,041 2,483	To import equipment for the Damascus Water Supply system
	Nazbak and Sons, Inc.	4/3/81	543 667	To import equipment for the Damascus Water Supply system
	O & E Trading Co.	4/3/81	1,620	To import equipment for the Damascus Water Supply system
	P & H Harmisch Seger Inter-	4/3/81	519	To import equipment for the Damascus Water Supply system
276-0010 Damascus Water Supply II	Gilbert Associates, Inc.	1/11/79	1,127	To provide architectural and engineering services for the construction of pumping stations and installation of communications and disatching systems.
	Philip E. Lamoreau with Gilbert Associates, Inc.	2/19/81	541	To provide architectural and engineering services for the investigation of Figeh Spring.

ACTIVE AID-FUNDED CONTRACTS IN SYRIA
(As of 4/15/83)

Loans

Project No. and Title	Contractor/Supplier	Date of[2] AID Commitment	Contract Amount ($000)	Contract Purpose
276-0010 Damascus Water Supply II (Continued)	H. E. Boggs	2/10/81	3,080	To import communications systems.
	H. E. Boggs	2/15/81	4,507	To import dispatching system.
	General Company for Executing Industrial Project	2/10/81	3,625	To import equipment for pumping stations.
276-0011 Euphrates Basin Irrigation Maintenance	Louis Berger, International	8/7/78	2,320	To provide architectural and engineering services for the purchase and maintenance of equipment.
	Soule Steele Co.	1/24/80	741	To import pre-fab steel buildings.
	Warner and Swasey	7/2/79	779	To import irrigation maintenance equipment.
	John Deere and Co.	10/9/80	334	To import irrigation maintenance equipment.
	Clark International Marketing	7/2/79	590	To import irrigation maintenance equipment.
	J. I. Case Co.	7/2/79	81	To import irrigation maintenance equipment.
	Koehring Co.	7/2/79	357	To import irrigation maintenance equipment.
	Wacker Corp.	7/2/79	34	To import irrigation maintenance equipment.

ACTIVE AID-FUNDED CONTRACTS IN SYRIA
(As of 4/15/83)

Loans

Project No. and Title	Contractor/Supplier	Date of[2] AID Commitment	Contract Amount ($000)	Contract Purpose
Euphrates Basin Irrigation Maintenance (Continued)	Raygo Inc.	7/2/79	34	To import irrigation maintenance equipment.
	American Export	7/2/79	140	To import irrigation maintenance equipment.
	Champion Road	7/2/79	347	To import irrigation maintenance equipment.
	New World Research	7/2/79	251	To import irrigation maintenance equipment.
	New World Research	11/30/80	808	To import irrigation maintenance equipment.
	Insley Manufacturing	7/2/79	794	To import irrigation maintenance equipment.
	American Equipment Co.	7/2/79	158	To import irrigation maintenance equipment.
276-0012 Damascus - Dera'a Highway	Daniel, Mann, Johnson and Mendenhall (DMJM) with Tippetts-Abbet-McCharthy-Stratton (TAMS)	6/22/79	2,935	To provide architectural and engineering services for the construction of the Damascus-Dera'a Highway.
276-0017 Lattakia - Tartous Highway	Lyon Associates, Inc.	6/25/79	5,022	To provide for the design of the Lattakia-Tartous Highway.

ACTIVE AID-FUNDED CONTRACTS IN SYRIA
(As of 4/15/83)

Loans

Project No. and Title	Contractor/Supplier	Date of[2] AID Commitment	Contract Amount ($000)	Contract Purpose
276-0018 Rural Electrification	Gilbert Associates, Inc.	2/29/80	5,269	To provide architectural and engineering services for the construction of rural electrification systems.
	Southern Wood Co.	11/30/80	13,028	To import wooden poles for rural electrification system.
	Southwire Co.	11/30/80	2,139	To import wooden poles for rural electrification system.
	ALCOA Conductor International	11/30/80	2,394	To import wooden poles for rural electrification system.
	Joslyn Manufacturing & Supply Company	11/30/80	954	To import wooden poles for rural electrification system.
	A. B. Chance, Inc.	11/30/80	208	To import wooden poles for rural electrification system.
276-0024 Provincial Water Supply Systems	Syrian Construction Contractors	8/18/80[3]	16,104	To provide construction of provincial water supply systems on a reimbursable basis.
276-0033 Rural Roads	Syrian Construction Contractors	8/8/80 to[3] 11/26/80	12,641	To provide construction of rural roads on a reimbursement basis.
276-0035 Rural Schools	Syrian Construction Contractors	9/5/80 to[3] 2/3/81	9,633	To provide construction of rural schools on a reimbursement basis.

ACTIVE AID-FUNDED CONTRACTS IN SYRIA
(As of 4/15/83)

Loans

Project No. and Title	Contractor/Supplier	Date of[2] AID Commitment	Contract Amount ($000)	Contract Purpose
276-0036 Development Imports II (CIP)	Fiat-Allis Construction	9/14/79	3,582	To import construction equipment.
	Ingersoll-Rant SA	9/28/79	1,292	To import construction equipment.
	Champion Inter. Corp.	10/10/79	1,530	To import construction equipment.
	Euclid Inc.	1/9/80	1,143	To import construction equipment.
	Universal	11/19/80	223	To import construction equipment.
	Universal Energy System	11/19/80	378	To import construction equipment.
	Milipare Intertech	7/30/80	10	To import construction equipment.
	Energy Efficiency System	10/16/79	535	To import construction equipment.

Footnotes:

[1] A contract was signed with the University of Nebraska for implementation of this entire Title XII project. A solicitation for a replacement contractor to implement the second phase was issued February 26, 1981.

[2] Commitment date is defined as the date an IFB was issued or contracts were signed. In some cases contract dates were not readily available, in these cases the dates of issuance of Letters of Commitment (L/Com) against contracts was used. The L/Com data is always after the date of the contract. On loans for rural schools, rural roads, and provincial water, dates of AID approval and authorization to the Syrian Government to enter into construction were used as commitment dates as earlier agreed with Congress.

[3] Dates on which AID approved the designs and authoried the Syrian Government to enter into construction contracts.

SUBMITTED QUESTIONS

Senator **Kasten**. I have no further questions. It is my understanding other members of the subcommittee may have written questions, and we will submit those questions to you and hopefully you can get back to us with answers within a couple of weeks.

[The following questions were not asked at the hearing, but were submitted to the Agency for response subsequent to the hearing:]

QUESTIONS SUBMITTED BY SENATOR KASTEN

DECREASE IN BOLIVIA'S FY 1984 APPROPRIATION REQUEST

Senator Kasten: The Administration is requesting an appropriation of $5 million for Bolivia for fiscal year 1984, down from $10.1 million in fiscal year 1983. Your justification material shows these cuts coming from Agriculture and Education and Human Resources. It is my understanding that the new democratic government in Bolivia is making strides in removing corruption and has instituted economic reforms. Are we sending the right signal to Bolivia, and why are we cutting this program so much, while at the same time asking Bolivia for their cooperation in a beefed up narcotics program? It would seem that this country, with a per capita income of $570 -- the least developed country in South America -- and one rich in natural resources -- deserves our support.

Mr. McPherson: The proposed reduction of the Bolivia program in FY 1984 is not intended to reflect a lack of support for the new democratic government in Bolivia. We expect the Bolivian Government to take needed measures in economic reform and coca control which we are committed to support. As a result, our program is likely to increase during FY 1984 as we seek funds internally in order to provide this additional support. In the meantime, in order to optimize our restricted development assistance budget, we are forced to reduce our program in certain countries in order to accommodate our most urgent needs in the countries of highest priority such as El Salvador.

INCREASED ASSISTANCE FOR DOMINICAN REPUBLIC

Senator Kasten: The assistance for the Dominican Republic you are requesting is double that provided in the current year. What is the justification for such an increase?

Mr. McPherson: At present the Dominican Republic is in the midst of a severe economic and financial crisis which rivals that of its Central American neighbors. In 1982 Dominican exports earnings declined by an estimated 36% due to sharply lower prices for sugar and weak external market conditions for other export commodities.

The world price of sugar, the major export of the Dominican Republic, has continued to drop in 1983, increasing the precariousness of the Dominican Republic's balance of payments situation. The economic crisis facing the Dominican Republic reflects not only low world prices for its exports, but also structural problems and development constraints that will require longer range development assistance efforts to overcome. The increase in assistance proposed is a response to both these urgent balance of payments needs and development assistance needs.

ECONOMIC SUPPORT FUND FOR BELIZE IN FY 1984

Senator Kasten: The Administration is not requesting any funds under the Economic Support Fund (ESF) for Belize in Fiscal Year 1984, thus reducing that program from approximately $11.6 million in the current fiscal year to $4 million in the 1984 request. Why is this?

Mr. McPherson: Of the $11.6 million FY 1983 program in Belize, $10.0 million is ESF under the CBI and $1.6 million is DA. The $4.0 million in FY 1984 is DA. The $10.0 million of ESF is broken down into three projects: $4.6 million for direct balance of payments support, $5.0 million for agricultural credit, and $400,000 for technical assistance in the area of housing renovation related to a HG. These ESF monies were intended to assist Belize to overcome specific short-term, temporary economic difficulties. At the present time we do not see the need for further ESF assistance.

In addition, we do not anticipate that the A.I.D. assistance program in Belize will be a large one, probably averaging less than $10.0 million a year. A.I.D.'s in-country office in Belize City was opened in January of this year with the appointment of an A.I.D. Representative. We plan that the office will remain small, with a second person added to the staff in FY 1984.

AUDIT OF THE PHILIPPINES ESF SCHOOL PROJECT

Senator Kasten: The Committee enumerated a number of concerns which were brought to light as a result of an audit of a project in the Philippines. Has that audit and its recommendations now been closed? If not, why not? If not, what remains outstanding and why?

Mr. McPherson: Five of the six audit recommendations are closed. The Inspector General (IG) still questions whether recently approved disbursement procedures, which eliminate the special account, provide effective internal controls and audit access. Closing the remaining audit recommendation requires: (1) a complete reconciliation of disbursements, (2) a decision on project close-out procedures, and (3) an explanation for the lengthy reconciliation process. A.I.D. must also assure that present disbursement procedures provide adequate financial controls.

We are taking the steps necessary to close the one remaining audit recommendation. Our USAID Mission and the Government of the Philippines are undertaking the reconciliation requested by the auditors. Close-out procedures will be prepared following the reconciliation and an explanation of the reconciliation process is being prepared.

As part of this process to close the audit recommendation, a senior officer in A.I.D.'s Office of Financial Management was recently sent to Manila to determine the adequacy of GOP financial management systems and internal controls used in ESF projects. He reviewed the USAID Mission's plan for financing the projects and concluded that the system provides excellent control of funds and adequate monitoring of those funds.

Senator Kasten: Why since A.I.D. has previously indicated that project funds were 99 percent dispersed, is it necessary to extend the project completion date even beyond the one year you are authorized to do so?

Mr. McPherson: The delivery of goods and services is 99 percent complete; however, we want to accomplish 100 percent of project objectives. Furthermore, the delivery of goods and related resources and performance of services for the achievement of project activities must be completed prior to expiration of the Project Assistance Completion Date (PACD).

Complete expenditures of committed funds is particularly important in the Philippine ESF program because of the relationship of ESF to our use of military facilities. An exact determination of any remaining unexpended balance in the project is not yet available. When such a determination is completed as part of reconciliation, any unexpended balance can be reprogrammed for additional activities under the school construction project.

An Assistant Administrator has the authority generally to authorize projects with a total life of 10 years, including extensions of PACDs within that period. In order to complete the delivery of goods and services in this project, the PACD was extended from December 31, 1981 to April 30, 1983.

Senator Kasten: Why since 99 percent of the schools are supposedly constructed can you not then liquidate the $18 million advance which has been outstanding for over two years now?

Mr. McPherson: The USAID could have liquidated periodically through the life of the project. However, it decided not to do so for the following reasons: (a) to simplify accounting procedures, (b) it was hoped that this would encourage rapid project implementation, and (c) since the agency project accounting system provided for recording accruals, failure to liquidate the advance would not distort agency accounting for expenditures.

Senator Kasten: Is anyone in the Philippine Government able to compile a list of the schools supposedly funded with "project" funds, with amounts paid to contractors for each school?

Mr. McPherson: The GOP is able to compile a list of the schools funded by the project. The Ministry of Human Settlements files include the following GOP documents which are supplied by the implementing agencies: The initial Management Advisory Committee Authorization, the Construction Contract, the Ministry of Public Works and Highways Completion Report, the Ministry of Education acceptance report that the school meets its standards, and a picture of the completed unit.

Senator Kasten: Do these amounts total 99 percent of the peso equivalent of the $18 million?

Mr. McPherson: The peso totals for goods and services delivered to meet project objectives closely approximate 99 percent of the $18 million life of project cost. These figures will be more fully refined as the GOP continues the reconciliation process.

Senator Kasten: It appears that the documentation submitted by A.I.D. to the Manila audit office which purportedly showed that the CD has been "cashed in" and returned to the Philippine Government Treasury had the wrong date and number for the CD, a copy of which the auditor has obtained in January 1982. Why? Where is the CD now?

Mr. McPherson: I assume that this question refers to a GOP Treasury letter dated November 18, 1982 which incorrectly identified a CD and its date of issuance. This inconsistency was noted by the USAID and corrected by the GOP Treasury in a letter dated November 26, 1982. The data in the November 26, 1982 letter is consistent with the copy of the CD in USAID's files. The CD is now closed.

Senator Kasten: If the Philippine Government can not come up with actual disbursements under the account, can the Manila auditors go back in and see how much is recorded in the account numbered 153 (which the Committee understands to be the account claimed by the Government of the Philippines to have been the one used to reconcile the project), and whether or not anything non-project related is also included?

Mr. McPherson: The GOP can account for actual disbursements under the account. Since construction began, the GOP has supplied USAID with quarterly reports on physical completions and disbursements. We have in the USAID's file such statements through December 31, 1982. The GOP is now preparing a current statement of actual disbursements under account 153. The auditors may, of course, look through GOP records of account 153 at any time.

Senator Kasten: A.I.D. has repeatedly indicated to staff that Treasury officials approved, or at least tacitly agreed with the concept of an annual advance, despite the guidelines of early 1980 which specifically prohibited advances to foreign governments in excess of immediate disbursing needs. Did the Agency for International Development check with Treasury to see whether such approval was actually granted then, or after the audit was published?

Mr. McPherson: On February 29, 1980, A.I.D.'s Controller met with the Assistant Treasury Secretary for Fiscal Management to discuss cash management and disbursement procedures planned for the Philippine ESF program. We have continued to inform Treasury officials of our cash management procedures on the Philippine ESF program and they have voiced no objection.

These discussions occurred before the Schools project was authorized on April 14, 1980. The project agreement was signed July 15, 1980, and on May 11, 1981, A.I.D. auditors announced their plans to audit this project.

Senator Kasten: If the A.I.D. general counsel's ruling that a refund of interest is not appropriate because the pesos were owned by the Philippine Government is allowed to stand, then can any of the project provisions, especially the ones on refunds, be enforced?

Mr. McPherson: Provisions of the project agreement remain in effect including those for refund.

The A.I.D. General Counsel's ruling stated that the clause on interest was not violated because the pesos earning interest were appropriated and owned by the Government of the Philippines. Refund provisions may be exercised if the situations warranted, e.g., failure of the Government to comply with its obligations under the project agreement.

In fact, ESF project agreements in the Philippines have a specially designed refund provision which requires a dollar refund if there is a material violation of the agreement or project pesos are not used as provided in the agreement.

BURMA

Senator Kasten: The last couple of years have yielded an opening to the West by Burma, including interest on the part of the Burmese for a closer relationship with the United States. Is that opening to the West still occurring, and what does the future look like for relations with that country?

Mr. McPherson: While adhering to its traditional principle of non-alignment, the Burmese Government is continuing to seek closer ties with the US and other western countries primarily as a means of promoting Burma's economic development. One of the world's poorest countries in terms of per capita income, Burma is relying on western aid and technology to support its efforts to develop its abundant but still largely untapped agricultural and mineral resources. This policy has so far worked well for the Burmese, enabling them to achieve an impressive seven percent average annual rate of economic growth during the past four years. It has also provided us with the opportunity to reestablish in 1980 a modest US development assistance program for Burma, which is having a significant impact in the fields of public health and agricultural development and is deeply appreciated by the Burmese Government. In addition to the State Department's military training and narcotics control assistance programs, our AID program has contributed to a gradual warming of US-Burmese relations. We expect this trend to continue, albeit in a quiet, gradual manner consistent with our respect for Burma's commitment to genuine non-alignment.

U.S. CONTRIBUTION TO UNFPA IN FY 1984

Senator Kasten: The Administration is requesting an appropriation of $212,231,000 for population planning programs for FY 1984. Of this amount, A.I.D. plans to provide $25 million to the United Nations Fund for Population Activities (UNFPA). This is an $8.5 million cut to the UNFPA program. Can you explain why you are proposing such a large cut from FY 1983 to FY 1984? And, if the Administration is planning to gear its program more towards bilateral assistance and away from multilateral assistance, wouldn't it make sense to phase these cuts in over a period of time rather than such a drastic move in one year? It is my understanding that the UNFPA is able to go into countries that the U.S. cannot. Is it in the U.S. interest to support an international approach such as that taken by the UNFPA?

Mr. McPherson: The Administration is proposing a contribution of $25 million to UNFPA in FY 1984. The total FY 1984 request from which the U.S. pays its contribution to UNFPA has been carefully constructed to reflect the objectives and priorities of the Administration. In trying to make the total population assistance level consistent with current budgetary stringencies and at the same time to meet the critical needs for bilateral and centrally-financed assistance, it was considered necessary to reduce the amount allocated to UNFPA. The following considerations have guided the Administration's FY 1984 contribution to UNFPA.

-- Increased emphasis on bilateral assistance: In FY 1984, an additional $3.7 million is planned for bilateral population assistance. Allowing for the proposed $1.2 million increase in overall population assistance, this will result in a $2.5 million decrease in the funds available for centrally-financed programs from which the contribution to UNFPA is drawn.

-- Meeting critical needs for centrally-financed assistance: In FY 1984 the budget provides for an additional $2.4 million for contraceptive development research. Support for private sector activities is increased by $2.6 million. The FY 1984 budget includes a modest $1.3 million increase for several important centrally-funded family planning programs which have been underfunded since FY 1981.

-- AID priorities: As we have urged, UNFPA support for family planning services is increasing substantially, but the proportion of their budget going to family planning is still lower than the proportion of AID's budget going to direct service-related activities. At this time of budget stringency, we need to allocate our resources to reflect our increasing interest in private sector programs for the delivery of voluntary family planning services and contraceptive research. In FY 1984, this can best be done by increased support to AID's own bilateral programs and centrally-funded activities.

The UNFPA is one of the most important and effective UN agencies. With projects and programs in over 130 countries, it is the largest multilateral agency providing population assistance. The U.S. has traditionally provided about 25 percent of the Fund's resources. While the FY 1984 decrease in the U.S. contribution would bring the U.S. support down to just under 20 percent, we have been emphasizing to other donors that the reduced U.S. contribution does not imply a loss in confidence in UNFPA. At the same time, we are encouraging them to increase their contributions to UNFPA.

AID CONTRACTS WITH THE NATIONAL ACADEMY OF SCIENCES

Senator Kasten: As you know, this Subcommittee has expressed concern in the past that of the $10 million request for Science and Technology, $5 million is slated for the National Academy of Sciences (NAS). You provided a list of the contracts A.I.D. had with NAS last year, which would be worthwhile repeating for fiscal year 1984.

Mr. McPherson: As I indicated last year, most of A.I.D.'s contracts and grants with the Academy go to the Board on Science and Technology for International Development (BOSTID), which is responsible for examining ways of applying science and technology to problems of economic and social development. The principal objectives of the BOSTID's Program are:

-- To help developing countries strengthen their own capabilities for dealing with important development-related problems and for moving toward greater scientific and technological self-reliance.

-- To stimulate and support research and development within and among the developing countries on problems of high priority for development and human welfare.

-- To provide developing countries with greater access to the scientific and technological knowledge and expertise that exist in the United States and other countries.

-- To provide a focus within the U.S. scientific and technical community for assistance to the developing countries and to encourage greater interaction with colleagues in the Third World.

In addition to BOSTID, A.I.D. has contracts with the NAS Commission on Behavioral and Social Sciences and Education, and the Food and Nutrition Board. The Commission's objective is to bring to bear the knowledge, analytical tools, and methods of the behavioral and social sciences upon major domestic and international problems in efforts to understand them better and to assist in their alleviation. The objective of the Food and Nutrition Board is to advise Federal Agencies and the general public on scientific and technical issues relevant to food and nutrition.

NAS relies on volunteer members of the scientific and engineering communities to participate in its A.I.D.-funded activities. Selected for their expertise, these scientists and engineers contribute major amounts of their time and services as study committee members and participants in overseas programs. In 1982, for example, BOSTID volunteers provided over $500,000 of time at no cost to the project sponsors.

There are currently 11 active contracts and grants with the Academy as listed below:

I. BOSTID

TITLE: Program for Applying Science and Technology to Development.

AMOUNT AND PERIOD OF OBLIGATION: $36,000,000 ($17 million to date) -- January 1981 - March 1988

SOURCE OF FUNDING: Office of the Science Advisor

PURPOSE: To identify underexploited technologies of potential economic value to developing countries and fund networks of developing country research institutions to explore and improve those technologies.

This is the grant for which we are requesting $5 million under the Science Advisor's program. There was an extensive, A.I.D.-NAS review of the grant during 1982. That review recommended that the grant should remain at $36 million, but be focused on research. The increased emphasis on research means a longer period to develop and implement the research program. Therefore, the grant was also extended from December 1985 to March 1988. As a matter of policy, research funds are awarded only to scientists in developing countries rather than in the United States. The grant also carries out studies, workshops and other activities related to the identification of research topics and agenda.

Research networks are being supported in the following areas: grain amaranth, a plant whose small seeds have a high content of good quality protein; biological nitrogen fixation with special emphasis on developing understanding and new technologies related to underexploited tropical legumes, azolla-anabaena systems, and free-living or associative nitrogen-fixing bacteria; mosquito vector field studies that may lead to the development of sound control strategies for the reduction or prevention of disease; rapid epidemiologic assessment to emphasize research oriented toward development, adaptation, and testing of simplified epidemiologic techniques for use in connection with public health programs in developing countries; fast-growing, nitrogen-fixing trees, including inventorying native species and comparative field testing of selected species; and diagnosis of acute respiratory infection in children.

TITLE: International Conference on Chemistry and World Food Supplies - the New Frontiers (CHEMRAWN II)

AMOUNT AND PERIOD OF OBLIGATION: $250,000 -- September 1981 - June 1983

SOURCE OF FUNDING: Office of the Science Advisor

PURPOSE: To assist in selecting and organizing the participation of 14 U.S. and 28 developing country scientists in the CHEMRAWN II meeting held in Manila in December 1982 and a subsequent series of small workshops which considered specific research needs and possibilities for international collaboration in the areas of increasing food production through chemical research. The conference was sponsored by the International Union of Pure and Applied Chemistry and the International Rice Research Institute.

TITLE: International Foundation for Science (IFS)

AMOUNT AND PERIOD OF OBLIGATION: $500,000 -- September 1982 - June 1985

SOURCE OF FUNDING: Office of the Science Advisor

PURPOSE: At the request of A.I.D. to enable the U.S. to become a financial sponsor of the IFS which awards small grants for research in the biological and agricultural sciences to individual scientists in developing countries. The grant is for awards in 1984 and 1985.

TITLE: Underexploited Village Resources of Southeast Asia

AMOUNT AND PERIOD OF OBLIGATION: $85,000 -- May 1981 - June 1983

SOURCE OF FUNDING: Asia Bureau

PURPOSE: To produce a realistic assessment of the merits of underexploited Asian plant and animal species that seem to have exceptional economic promise. Included in 5 studies are Acacia mangium and Calliandra (plant species), banteng and other little known animal species and wildlife farming.

TITLE: Systems Analysis/Operations Research for Tunisia

AMOUNT AND PERIOD OF OBLIGATION: $54,965 -- September 1978 - September 1983

SOURCE OF FUNDING: USAID Mission in Tunisia

PURPOSE: To assist the Government of Tunisia in activities that will focus on scientific problems or issues related to the application of science and technology to the social and economic betterment of the Tunisian people; includes two workshops on use of waste water for agricultural purposes, and composting of urban wastes.

TITLE: A.I.D. Cooperative Activities in Indonesia on Science, Technology and Research Policy Development

AMOUNT AND PERIOD OF OBLIGATION: $630,000 -- July 1979 - April 1984

SOURCE OF FUNDING: USAID Mission in Indonesia under S&T loan

PURPOSE: To assist organizations of the Government of Indonesia in formulating effective policies and programs for the use of science and technology to improve the social and economic conditions of the Indonesian people, i.e, development of marine resources, rural productivity in transmigration areas, S&T manpower planning.

TITLE: Sahel Regional Aid Planning and Coordination

AMOUNT AND PERIOD OF OBLIGATION: $285,000 -- September 1981 - June 1983

SOURCE OF FUNDING: African Bureau, Office of Sahel

PURPOSE: To assist the governments and organizations in the Sahel with the development of programs directed toward the stability and production of the region's food supply systems.

TITLE: Applied Science and Technology Research, Egypt Phase II

AMOUNT AND PERIOD OF OBLIGATION: $2,015,000 -- August 1981 - October 1983

SOURCE OF FUNDING: USAID Mission in Egypt

PURPOSE: To provide various services necessary to implement Phase II of this research project under the following project areas: policy planning and management; research and development sub-project support; demonstation sub-project support, i.e., more and better foods, economic plants and crops for arid lands, fisheries, R&D management training.

TITLE: Support of a Cooperative Program with Portugal

AMOUNT AND PERIOD OF OBLIGATION: $495,000 -- February 1982 - February 1985

SOURCE OF FUNDING: USAID Mission in Portugal

PURPOSE: To assist Portugal's National Board for Scientific and Technological Research (JNICT) in planning and implementing programs in selected areas of science and technology, i.e., water resource planning, biotechnology for food production, oceanographic research; help identify personnel needs related to the selected areas and assist in the organization of orientation, specialized research, study and fact finding opportunities in the U.S. for key Portuguese scientists and science administrators; help identify relevant science and technology information networks in which the JNICT can participate; and lay the foundation for greater cooperation between scientific and technical institutions in Portugal and the U.S.

II. COMMISSION ON BEHAVIORAL AND SOCIAL SCIENCES AND EDUCATION

TITLE: Study of the Determinants of Fertility Change

AMOUNT AND PERIOD OF OBLIGATION: $1,322,563 -- September 1979 - September 1983

SOURCE OF FUNDING: Bureau for Science and Technology, Office of Population

PURPOSE: To develop a research agenda for studying fertility determinants; to perform a detailed analytical study of the key variables that affect fertility behavior; to work on measurement problems related to fertility determinants analysis; to study conditions affecting fertility declines in selected countries; and to study the effects of the proximate determinants of fertility such as age at marriage, breastfeeding, etc.

III. FOOD AND NUTRITION BOARD

TITLE: Committee on International Nutrition Program

AMOUNT AND PERIOD OF OBLIGATION: $245,000 -- August 1982 - April 1984

SOURCE OF FUNDING: Bureau for Science and Technology, Office of Nutrition

PURPOSE: To provide policy advice to and review research and development programs and plans for A.I.D.'s Office of Nutrition in areas of their concern including nutrition and fertility, maternal and infant nutrition, nutrition surveillance, nutritional components of a primary health care system, and determinants of food consumption at the household level.

Senator Kasten: In addition, there are some questions with respect to contracts for fiscal year 1983. For instance, there was a $285,000 project "to assist the governments and organizations in the Sahel." Considering the Congress appropriated almost $94 million to the Sahel Development Program last year, there is some question whether or not this is redundant. There was a $2 million project in Egypt for policy planning and management, research and development sub-project support and demonstration sub-project support. There is an enormous pipeline of foreign aid in Egypt, in addition to A.I.D.'s ongoing programs in that country for fiscal year 1983. The last contract mentioned is a $1.3 million study of the determinants of fertility change. This brings questions to mind considering the appropriation of $211 million for population planning in A.I.D. for fiscal year 1983.

Is this money going to projects and research that A.I.D. is doing under other offices and through its own on-going projects?

Mr. McPherson: Yes. Each of the NAS contracts and grants is funded by the office or program responsible for the function being supported by the NAS. The Office of the Science Advisor funds the grants aimed at innovative research. Similarly, the Sahel program funds the work on Sahel regional planning, the Egyptian program funds the Applied Science and Technology Research project and the central population office funds the study on fertility determinants.

JOINT ENTERPRISE CONTRACTING MODE IN NIGER

Senator Kasten: A new approach being tried out at the Science and Technology Bureau is the "Joint Enterprise Contracting Mode." The first project using this arrangement is underway in Niger? Can you supply the Subcommittee information on what that project entails?

Mr. McPherson: The Integrated Livestock Production Project (project number 683-0242) is the first USAID/Niger Mission project which is using the joint enterprise contracting mode. Under this arrangement, Tufts University, in cooperation with North Carolina A&T, New Mexico University and International Livestock Center for Africa (ILCA), will design and implement the project. The project paper is scheduled to be completed by April 30, 1983 and authorized by May 15, 1983. Execution of the contract between the Government of Niger and Tufts University covering project implementation is estimated to be July 15, 1983.

The project is expected to establish an institutional and policy framework with an appropriate set of incentives that will permit optimal use of the productive resources of Niger's livestock economy. Inputs to increase productivity are planned in areas of animal health and nutrition, livestock marketing, human health and education and water point construction.

The project will place the highest priority in the following areas:

(1) identifying and providing appropriate inputs through herders' associations;

(2) providing institutional collaboration and efforts to strengthen the Livestock Services' capacity in the field of epidemiology and parasitology; and

(3) establishing a viable delivery system for goods and services to the herders.

MEMORANDA OF UNDERSTANDING WITH UNIVERSITIES

Senator Kasten: In Dr. Brady's statement for the record, he mentions the approach being used by the Science and Technology Bureau -- that of a Memorandum of Understanding (M.O.U.) with universities which projects a long term plan of action and cooperation between A.I.D. and selected universities. I understand that only two M.O.U.s have been signed, but that others are under negotiation. Can you tell the Subcommittee what the average duration of these M.O.U.s is, and what the projects are?

Mr. McPherson: We do view a Memorandum of Understanding as a means of facilitating a long-term partnership with a selected U.S. university in carrying out Title XII programs. Accordingly, our Memoranda of Understanding have a five-year term and can be extended one year annually with the agreement of both parties. We believe this term is necessary to enable a university to make the commitment, required in the Memorandum of Understanding, to maintain a core staff of faculty members prepared and available to work overseas on A.I.D. projects.

Concerning the second part of your question, a university is selected for a Memorandum of Understanding primarily because it has demonstrated that it has outstanding resources in an area of particular importance and concern to A.I.D.'s development efforts. Colorado State University, for example, was selected because of its expertise in on-farm water management and farming systems research; the University of Florida because of its expertise in humid tropics food crop and livestock production. We should expect, therefore, that each university would be engaged, primarily, in projects related to its area of outstanding expertise. I should like to point out however that the Memorandum of Understanding itself is not directly concerned with individual projects but rather with assuring the availability of university faculty to staff such projects as the need arises.

AMERICAN UNIVERSITY OF BEIRUT SITUATION

Senator Kasten: Can you give the Subcommittee an update on the American University of Beirut?

Mr. McPherson: I am pleased to report that AUB is doing reasonably well. It received only minor damage in last summer's fighting, is open for business and is again doing a fine job of educating students. There are approximately 4,900 graduate and undergraduate students, nearly the same level as before the fighting began. It is also quite interested in taking an active role in Lebanon's reconstruction effort.

Congress earmarked for AUB $10 million of the $50 million supplemental voted last September for our relief and rehabilitation assistance to Lebanon. These funds will be used to repair war damage and to meet urgent financial needs caused in part by last summer's fighting--specifically deficits incurred by the AUB Hospital in treating over 3,000 casualties, as well as tuition losses caused by the disruption of classes.

There are however, some longer-term problems that AUB is facing, and it is working on solutions to reducing its operating deficits and its dependence on the U.S. Government. We also have been working with AUB in its effort to put its financial operations on a firmer basis. That effort was delayed by the events of last summer, but we plan to meet with AUB officials at the end of April to review the university's plans.

In FY 1982, $11.6 million was provided by AID: $4 million from our American Schools and Hospitals Account, $3 million of the $10 million earmarked in the FY 1982 Emergency Supplemental, $1.5 million in extraordinary ESF funding provided in April 1982 to meet a particular deficit at that time; and $3.1 million from the DA regional scholarship project.

In FY 1983, we are providing $13.9 million: the balance of $7 million of the earmarked special disaster funds from the previous year, $4-6 million under the ASHA program, and $2.9 million for the regional scholarship project. For FY 1984 we hope, in addition to the $3 million of DA funds for the regional scholarship project, to provide AUB with support from ASHA. AUB will undoubtedly be a strong competitor for FY 84 ASHA funds.

AID's FY 1984 HEALTH PROGRAM

Senator Kasten: Regarding the health account, A.I.D. in its explanation documents to the staff, states that "We are confident that the decrease in the health account is temporary, and we are certain that it does not in any way reflect a weakening of A.I.D.'s historically strong support for health programs in developing countries." Does this mean then that while you are cutting the health account by $32.7 million, you plan to come back in fiscal year 1985 with that $32.7 million amount restored? If so, are you planning on using those funds for health care projects, but not construction? Are you confident that your field missions can come up with $30 million worth of new health care projects?

Mr. McPherson: Let me assure you that AID is committed to a strong health program and I am personally confident that the decline in the FY 1984 health budget is a temporary phenomenon. Please let me explain.

First, AID has adopted a new program mix which de-emphasizes high-cost commodities and construction and emphasizes low-cost interventions and cost-recovery, which has reduced the average price tag on our health projects. Second, the increase in the FY 1983 health budget over what had originally been planned allowed for accelerated funding of some projects which otherwise would have had to await FY 1984 funding. Third, projects consistent with the new policy emphases of the Agency are still in the early stages of development and negotiation with LDC health officials; requirements for funds at such a time is typically lower. Our FY 1984 health request not only includes every project that was ready for implementation and consistent with our new health policies; it also includes an additional $15 million, in the expectation that project development will gain momentum and additional activities will be ready for funding before the end of FY 1984. I should note that in addition to the $100.7 million in development assistance for health in FY 1984, A.I.D. is planning $28 million in ESF for health and $210 million in ESF for water and sanitation programs.

Needless to say, I am paying close personal attention to A.I.D.'s performance in this sector. In the last year I have sent two messages to the field staff assuring them of my continued interest in a strong health program. Last December I approved a new health policy which I believe is a forceful statement of A.I.D.'s intentions and priorities in health. In June we are holding a major conference to report on progress in development and implementation of oral rehydration therapy programs. I have also encouraged my staff to be more aggressive in thinking about biomedical and field research which A.I.D. should be supporting. We are giving greater attention to the prospects of cofinancing health programs with other donor organizations, and we are also seeking opportunities to utilize private sector health providers and private sector financing to the maximum extent possible in LDC health programs.

In short, we are moving rapidly into the second generation of primary health care programs, having learned a great deal from our experience over the past several years. As we gain confidence in and experience with more efficiently designed and managed primary health care programs, I feel certain that interest and momentum within the LDC and donor communities alike will increase. While it is too early to know whether the

FY 1985 request will approach the level of the FY 1983 budget, I assure you that A.I.D.'s field staff is giving whole-hearted support to implementing the new health policy, and I am confident that next year at this time we will have some exciting new programs to share with you.

ANTI-MALARIA PROGRAMS

Senator Kasten: Despite the contributions the United States has made to combat malaria, the incidence of that disease is increasing with over 214 million people being affected. The World Health Organization has identified constraints to effect anti-malaria programs, and I think that we would be interested in knowing what criteria A.I.D. has developed to prevent commitment of scarce foreign aid dollars to anti-malaria projects that offer little hope of sustained progress?

Mr. McPherson: I share the Senator's concern with the resurgence and spread of malaria. The problem has become more complex in recent years with the emergence of malaria strains which cannot be treated with conventional drugs and of mosquitos which cannot be controlled by standard pesticides. For this reason, A.I.D. is supporting basic and applied research aimed at improving the options for the control and treatment of malaria and we are pleased to be able to report very significant progress on several fronts. Recent scientific breakthroughs in our malaria vaccine research program may mean that we are well on our way to having a vaccine which will be effective against multiple strains of malaria. Concern with growing resistance to pesticide by the mosquitos which carry malaria and the impact of the pesticides on the environment motivated A.I.D. to support field research in Indonesia on alternatives to DDT. This research identified alternative insecticides which were both environmentally safer and which could be applied at a much lower level than previously believed. To ensure that information such as this is available for country program decisions, A.I.D. is convening, in June, a conference of world experts to examine the state of the art in malaria control and to develop guidelines for field use.

OBJECTIVES OF A.I.D.'S PVO PROGRAM

Senator Kasten: A.I.D. has yet to determine the relationship between Private Voluntary Organizations (PVO) contributions to development and overall A.I.D. objectives. Many PVOs have become financially dependent on A.I.D., thereby endangering their programmatic independence. This is an on-going concern of the Subcommittee, one which we discussed when you were before this Subcommittee last year. Can you tell us what A.I.D. has done to clarify the objectives of its PVO program? What is A.I.D.'s policy for percentage funding of PVO activities?

Mr. McPherson: The objectives of the Agency's PVO program have been clarified this past year through the approval and dissemination of the A.I.D./PVO Policy Paper. As stated therein, these objectives are:

- to increase the economic development impact of A.I.D.
- supported PVO programs through increased program integration and focusing resources on field programs;
- to discourage undue dependence on U.S. Government financing of the international development programs of PVOs by introducing non-U.S. Government cash funding requirements in grant relationships;
- to reduce the administrative cost to both A.I.D. and PVOs of A.I.D.
- funded PVO programs by simplifying and standardizing management and administrative procedures to the maximum extent possible and by creating a central focal point for PVO relationships with A.I.D. within the Food for Peace and Voluntary Assistance Bureau (FVA); and
- to insure that A.I.D. funds are used in ways that reflect A.I.D.'s legislative mandate, yet do so in a way that calls into play such unique capabilities of voluntary agencies as their knowledge of the local situation and their programming and managerial flexibility.

To discourage PVO dependence on U.S. Government funding for international programs, we have adopted the requirement that cost-sharing be applied to PVO grant funding. A.I.D.'s legislation establishes January 1, 1985 as the effective date by which a 20% non-U.S. Government funding requirement will be applied in determining whether a U.S. PVO qualifies for grants available under the PVO grant program. In the intervening period, we will encourage and monitor a progressive phase in towards meeting this target on the part of PVO grantees receiving assistance from Section 106 and other funding accounts.

QUESTIONS SUBMITTED BY SENATOR HATFIELD

ADMINISTRATION'S COMMITMENT TO IFAD

Senator Hatfield: Does the fact that the U.S. contribution to the International Fund for Agricultural Development for FY '84 will result in a delay in fulfilling the U.S. obligation of at least one year and perhaps two years reflect a diminished commitment to IFAD or its purposes?

Mr. McPherson: No. The United States continues to be a strong supporter of IFAD and its objectives of reaching poor, small farmers with essential food production assistance. IFAD's very existence can in large part be attributed to the efforts of the United States. This Administration recognizes that IFAD's unique position of engaging the OPEC countries in a cooperative development effort with western donors to assist small farmers distinguishes it from other funding institutions and has our continued support.

Senator Hatfield: If not, how does AID justify the President's request?

Mr. McPherson: When IFAD was established, the U.S. pledged and contributed $200 million. This Administration requested an authorization of $180 million as the U.S. contribution to the first replenishment. Congress approved this authorization, but rejected the FY 82 appropriation request of $39.6 million against our contribution. Although the Congress appropriated no funds for IFAD in FY 82, the FY 83 Continuing Resolution contained a $24 million appropriation -- some $41 million less than the Administration's request.

The FY 84 budget request contains $50 million for IFAD, a figure which represents a balance between IFAD's funding needs and the real budget constraints we continue to face.

US FULFILLMENT OF IFAD I PLEDGE

Senator Hatfield: Is it the Administration's intention to provide what remains of the U.S. obligation of $180 million in FY 85 or to stretch out that obligation for an additional year?

Mr. McPherson: That determination has not yet been made. The economic recovery which we are now experiencing allows for some optimism. Planning levels for future budget requests for IFAD will become clearer as we monitor the speed and strength of our recovery.

EFFECT OF DELAYS IN US PAYMENT TO IFAD

Senator Hatfield: How will delays in the U.S. fulfilling its obligation to IFAD affect the number of projects financed by IFAD and co-financed with the World Bank and the resources available to be committed to projects?

Mr. McPherson: Delayed replenishment payments have already forced a 20-25% reduction in IFAD's current lending program. Over half of IFAD's projects are designed by and co-financed with the World Bank and the regional banks.

It is difficult to determine the full extent of IFAD's curtailment in project funding, as some fellow donors have stated that they may withhold their contributions to IFAD if the U.S. payments are not forthcoming. Obviously, such a phenomenon would worsen IFAD's potential lending abilities and the U.S. could expect to be viewed as culpable.

SUBCOMMITTEE RECESS

Senator **Kasten**. Thank you all very much for your help. It has been a pleasure working with you. I look forward to working with you again.

Mr. McPherson. Thank you again.

[Whereupon, at 3:10 p.m., Thursday, March 3, the subcommittee was recessed, to reconvene at the call of the Chair.]

FOREIGN ASSISTANCE AND RELATED PROGRAMS APPROPRIATIONS FOR FISCAL YEAR 1984

MONDAY, MARCH 7, 1983

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, D.C.

The subcommittee met at 10 a.m., in room SD-192, Dirksen Senate Office Building, Hon. Robert W. Kasten, Jr. (chairman), presiding.

Present: Senators Kasten, Rudman, and Specter.

UNITED NATIONS

U.S. PERMANENT REPRESENTATIVE

STATEMENT OF HON. JEANE J. KIRKPATRICK, U.S. PERMANENT REPRESENTATIVE TO THE UNITED NATIONS

INTRODUCTION OF WITNESS

Senator **KASTEN**. The subcommittee will come to order.

This morning we are privileged to have with us the Honorable Jeane Kirkpatrick, U.S. Representative to the United Nations.

Ambassador Kirkpatrick, the subcommittee is looking forward to your testimony today and working with you during the coming year. I especially, from my experience as a delegate to the last General Assembly, look forward to a continuing close working relationship with you.

As I have said several times in the past, both publicly and privately, I greatly admire the work that you and your associates are doing in New York, and I want to help you, and I know the subcommittee wants to help you in any way that we can.

As you know, your full statement will be printed in the hearing record, and if you would summarize your statement, we would have more time for questions.

Also we have a statement from Gregory Newell, Assistant Secretary of State for International Organization Affairs, which we will insert in the record at the appropriate place.

So, welcome, we are glad to have you with us. We very much appreciate the opportunity to work with you this morning.

[The statement of Ambassador Kirkpatrick follows:]

PREPARED STATEMENT OF JEANE J. KIRKPATRICK

UNITED STATES PERMANENT REPRESENTATIVE TO THE UNITED NATIONS

Mr. Chairman:

Last year, appearing before this Subcommittee, I presented a kind of report card on my first sixteen months at the United Nations, in the course of which I tried to make four major points. These were:

The UN is an important body, worthy of our attention.

The UN today is not at all the institution its American founders hoped for.

The UN does not reflect or represent the world in the way representative bodies usually do.

The question for the US and for all countries committed to democracy and self-determination is whether the UN can be made a more effective instrument for problem-solving and peace-making among nations, an institution which helps resolve differences rather than exacerbate them.

Today, I would like to talk about a phenomenon that underlies these considerations, an activity which determines whether the United Nations becomes involved in conflict resolution or conflict exacerbation. I want to talk about voting behavior in the UN, and I will try to explain why we seem so often to be on the wrong side of lopsided votes, and what this tells us about ourselves and about the UN.

From the very earliest days of the UN, we here in the United States have had a fundamentally flawed mental picture of how issues are decided at the United Nations. We have imagined that the General Assembly, or whatever UN body is under consideration is made up of individual voting members who listen carefully to the arguments pro and con, decide what is right and just and in their country's interest, and vote accordingly. This is what political scientists call the "rational activist" view of voting behavior.

Why we should have believed that anything in this imperfect world would operate on a totally rational basis, is an interesting question. After all, legislatures do not behave in this way. With all respect, I may suggest it is open to question whether the Congress of the United States operates on so pure a basis of absolute rationality.

Yet somehow, we expected that the United Nations would behave in this manner. Indeed, we profess surprise and disappointment that it does not.

How does the UN behave? You may not be too surprised to learn that voting behavior at Turtle Bay is rather like voting behavior in any legislature. That is, voting alliances, temporary or of longer duration are formed on the basis of shared interests. Favors are extended, obligations accumulated and discharged, arms are twisted, horses traded and occasionally, or so one hears, a vote may be bought -- or at least rented.

There is one phenomenon which is unique to UN voting behavior, however, and that is the role and influence of the various regional voting blocs.

Regional organizations have played a key role in the UN since the organization was established. The Charter, in Article 52, encourages the involvement of regional organizations in the settlement of international disputes, and in Article 53 even recommends to the Security Council that regional organizations be used to enforce Council decisions. The Charter thus institutionalizes a role for regional groupings within the UN system.

Over time, a network of informal arrangements has grown up, linking the Secretariat of the UN with the secretariats of the various regional groups such as the Organization for African Unity or the Islamic Conference. In fact, some international civil servants move from a job with one or another regional body to a job at the UN Secretariat, and back again, during the course of a career. Most of all, however, the position of the regional organizations has been cemented within the UN by their effectiveness in protecting their members' interests, for it is through these regional voting blocs that the smaller nations have been able to make sure that the issues important to them will dominate the agenda of the UN.

The numbers tell the story. The Organization for African Unity has about 50 members -- one-third of the UN membership. The Asian group has about 40 members. A voting coalition of the two will have enough votes to carry any issue , even allowing for defectors or absentees, regardless of who else may be opposed. Similarly, the Non-Aligned Movement has about 96 members at present. If the NAM caucus takes a position on an issue, that position will determine whether the issue is voted up or down in the UN.

The influence of these voting blocs is so all pervasive, that today in the UN, aside from the US, only Canada, New Zealand, Australia and a very few others, exist outside of voting blocs, and the Australians, Canadians and New Zealanders have the British Commonwealth Club to which they can repair. But we are members of no Club, given the rational activist approach we adopted at the beginning of our UN career and, perhaps even more importantly, given the fact that our interests are global rather than regional in scope. When we examine an issue, we must determine how it will affect NATO, whether it will have an impact on security on the Korean peninsula, or the prospects for peace in the Middle East, stability in the South Atlantic or economic development in the Caribbean. For many UN members, the claims of regional solidarity or some form of religious or cultural affinity can be commanding. This is not true for the United States.

So we find ourselves in an arena which is dominated by the concerns of the regional voting blocs. What are they? Because the regional organizations themselves are heterogeneous -- the Organization for African Unity, for example, includes Arab states and black states, Islamic states and Christian states, kingdoms and socialist republics -- broad unity tends to coalesce only around certain "lowest common denominator issues: attacks on Israel and South Africa; attacks on multinational corporations, the bogeymen of the new international mythology; support for any organization which describes itself as a "national liberation movement"; support for high levels of resource transfers from the industrialized to the non-industrialized world as a matter of right and obligation.

Thus the agenda of the General Assembly tends to be the same from year to year. Indeed, aside from the addition or subtraction of verbal curlicues, not only the agenda items but the resolutions themselves are the same from year to year. There are the inevitable twenty or thirty resolutions attacking South African behavior and the equally inevitable ten or twenty resolutions attacking Israel. There are never any resolutions calling upon the Arab countries of the Middle East to make peace with Israel, nor are there resolutions which might lead the South Africans to believe that if they did modify their behavior -- which indeed is an affront to human sensibilities -- their international isolation might be lessened. Meanwhile, in the realm of resource transfers and economic development, codes of conduct for multinational corporations are elaborated which, if followed, probably would drive these firms out of business and surely would drive them out of the non-developed world, scuttling the economies of many of these third world states in the process. At the same time, new "human rights" are identified, for example the right to pain-free, adjustment-free economic development. I have no doubt at all that one day the General Assembly, in its collective wisdom, will declare that all children have an inalienable right to a completely happy childhood and a truly compassionate second grade teacher.

Given this issue orientation and the determination of most of the "third world" to steer clear of anything that looks like an East-West confrontation, no one should be surprised that we find it difficult to get a hearing on issues like human rights violations in the Soviet Union, or that we often find ourselves on the wrong side of a lopsided vote.

Let's take a closer look at voting behavior. If we take the twenty issues which we identified as the most important at last year's General Assembly, and compare our voting pattern with that of each of the major blocs, we see the following measure of agreement:

with the West Europeans: 80%
with the Latin Americans: 38%
with the Asian Group: 26%
with the Afircan Group: 23%
with the East Europeans: 8%
with the Non-Aligned Movement: 22%

Of course these overall vote totals don't tell the whole story, because we are amalgamating votes where we were, happily, on the winning side at 105 to 23, as in the case of the resolution on Kampuchea, to resolutions where we were on the wrong end of 113 to 4. This last vote is worth looking into more closely, for it is a good example of how common sense can be confounded, and confounded overwhelmingly. At issue was a resolution which called on the Security Council to take steps to establish an independent Palestinian state in the Israeli occupied territories, to create it by fiat and impose it on Israel. Now of course such an action would cut directly across the major Security Council resolutions on the Middle East, 242 and 338, and everyone knew that the Security Council was never going to do this. Equally, everyone knew that such a resolution was quite worthless in terms of advancing the settlement on any of the outstanding Middle East issues. In fact, the resolution was as good an example as one could find of UN action which exacerbates differences rather than settling them. Nevertheless, 113 states voted for the resolution and only two, Canada and Costa Rica, joined the United States and Israel in voting against it. Our NATO allies other than Canada abstained.

Now how does this happen?

I think it happens because a few see a chance to roil the waters, while the many are so desensitized to this kind of cynical manipulation that they no longer take it seriously. Not only do they vote in favor, believing that it will lead to no result one way or the other, they vote in favor precisely because they know it will lead to no result. If they thought it would, most would vote differently.

As I have said in past testimony before this and other committees, at the US Mission to the UN, we take these matters seriously and we believe that resolutions like this one do have an effect. Not only is there a kind of Gresham's Law of resolutions where balderdash such as this preempts the time that could be given to more useful purposes, but the very elan and purpose of the United Nations as a body dealing realistically with real problems tends to be eroded.

In the two years I have been there, and increasingly in the past twelve months, I think that we at the US Mission to the United Nations have shown that by taking the UN seriously, and by demonstrating to all that we do take it seriously, we have made a difference. On issues of particular concern to us, for example on the question of Puerto Rico at last year's General Assembly, by communicating the depth of our concern we were effective in winning support, and ultimately the vote. We have been successful as well on other issues of principle, for example in connection with the attempt to delegitimize Israel and to deny Israeli credentials. Along the way, we have learned that on matters of principle, one must take an absolutely clear and unambiguous stand. Although I often have been told of the uses of ambiguity in bilateral matters, I am persuaded that extreme clarity is necessary in multilateral diplomacy.

Which brings me to a final point, and one I consider particularly important. In my view, we cannot and should not maintain the compartmentalization that traditionally has separated our bilateral and our multilateral diplomacy. We need to communicate to nations that their votes, their attitudes, and their actions inside the UN system inevitably must have consequences for their relations with the United States outside the UN system. We must communicate that it is not possible to denounce us on Monday, vote against us on important issues of principle on Tuesday and Wednesday, and pick up assurances of our support on Thursday and Friday.

To say that I believe there has to be some linkage between bilateral and multilateral diplomacy should not be taken as meaning I advocate simply turning the economic assistance spigot, or the military assistance spigot, or any spigot at all, on or off solely on the basis of how a country votes in the UN. Obviously, when the Administration proposes assistance to another country, and when the Congress votes it, both have in mind specific and important reasons for doing so. These can range from key geostrategic location, to economic or political turnaround, to formal military pact or base agreement. But I do believe that behavior, including voting behavior, in multilateral organizations like the UN, should also be one of the criteria we employ in deciding whether we will provide assistance, and what type of assistance and in what amount.

Most particularly, I am convinced that to make attacks on the United States a risk-free operation can have only the effect of insuring that they will take place.

Thank you.

UN VOTING RECORD
37th GENERAL ASSEMBLY
1982

REGIONAL GROUP COUNTRY	OVERALL PERCENTAGE AGREEMENT WITH US, ALL UNGA VOTES
ISRAEL	86.2
Western Europe & Others	
UNITED KINGDOM	80.1
FEDERAL REPUBLIC OF GERMANY	76.6
BELGIUM	74.4
LUXEMBOURG	73.7
CANADA	70.7
FRANCE	68.8
ITALY	67.9
NETHERLANDS	66.8
AUSTRALIA	64.6
NEW ZEALAND	64.2
DENMARK	60.3
NORWAY	59.8
ICELAND	58.4
PORTUGAL	57.3
SPAIN	51.1
IRELAND	48.7
TURKEY	44.6
FINLAND	43.2
SWEDEN	43.0

AUSTRIA	40.6
GREECE	33.2
MALTA	24.7

Latin America/Caribbean

GUATEMALA	49.2
PARAGUAY	48.9
URUGUAY	36.4
HONDURAS	36.2
ST. LUCIA	35.2
CHILE	35.1
ST. VINCENT	33.3
EL SALVADOR	32.9
HAITI	31.9
BAHAMAS	31.3
DOMINICAN REP.	30.1
COSTA RICA	29.4
COLOMBIA	27.7
BRAZIL	27.2
VENEZUELA	25.0
ANTIGUA & BARBUDA	25.0
TRINIDAD & TOBAGO	24.8
ECUADOR	24.8
JAMAICA	24.0
DOMINICA	23.5
PERU	23.5
SURINAME	23.5
BARBADOS	22.1

ARGENTINA	22.1
PANAMA	20.0
MEXICO	19.9
BOLIVIA	18.5
BELIZE	17.9
GUYANA	17.5
NICARAGUA	14.3
CUBA	10.5
GRENADA	9.3

Asian Group

JAPAN	67.2
SOLOMON ISLANDS	34.2
FIJI	31.6
LEBANON	31.5
SINGAPORE	30.8
PHILIPPINES	30.2
PAPUA NEW GUINEA	30.2
SAMOA	30.2
KAMPUCHEA	28.0
BURMA	27.1
PAKISTAN	26.8
THAILAND	26.6
NEPAL	26.5
MALAYSIA	25.5
INDONESIA	24.5
OMAN	24.2

SAUDI ARABIA	24.0
BANGLADESH	22.8
SRI LANKA	22.0
MALDIVES	21.8
JORDAN	20.8
QATAR	20.7
BAHRAIN	20.6
UNITED ARAB EMIRATES	20.2
CHINA	20.2
KUWAIT	20.2
CYPRUS	19.9
BHUTAN	19.5
YEMAN, NORTH	18.4
MONGOLIA	18.3
INDIA	17.2
IRAQ	16.3
IRAN	14.8
SYRIA	14.4
VANUATU	12.9
YEMEN, SOUTH	12.2
AFGHANISTAN	11.5
LAOS	11.4
VIETNAM	10.3

Africa

MOROCCO	31.8
MALAWI	31.4
SOMALIA	30.6
IVORY COAST	30.4
LIBERIA	29.0
ZAIRE	28.3
GABON	28.1
EGYPT	26.2
SUDAN	26.0
SENEGAL	25.8
CHAD	25.7
EQUATORIAL GUINEA	25.4
CAMEROON	25.1
CENTRAL AFRICAN REPUBLIC	25.0
TOGO	24.1
TUNISIA	24.0
DJIBOUTI	23.7
LESOTHO	23.4
MAURITANIA	23.1
KENYA	22.4
UPPER VOLTA	22.3
NIGER	22.0
RWANDA	21.6
BURUNDI	21.1
MALI	20.6
ZAMBIA	20.6
NIGERIA	20.5

GAMBIA	20.3
SIERRA LEONE	20.3
TANZANIA	20.3
GHANA	20.1
BOTSWANA	20.0
COMOROS	20.0
GUINEA	19.0
UGANDA	17.9
MAURITIUS	17.3
SWAZILAND	16.9
CONGO	16.0
SAO TOME	15.1
MADAGASCAR	14.9
BENIN	14.2
ANGOLA	14.2
GUINEA-BISSAU	13.9
LIBYA	13.6
ALGERIA	12.8
SEYCHELLES	12.8
ZIMBABWE	12.8
ETHIOPIA	12.2
MOZAMBIQUE	11.2
CAPE VERDE	10.4

Eastern Europe	
HUNGARY	21.0
BULGARIA	20.8
USSR	20.6
UKRAINE	20.6
BYELORUSSIA	20.6
CZECHOSLOVAKIA	20.5
GERMAN DEMOCRATIC REP.	20.1
ROMANIA	19.4
YUGOSLAVIA	19.0
POLAND	18.9
ALBANIA	8.8

UN VOTING RECORDS
37th GENERAL ASSEMBLY
NEW YORK, 1982

COUNTRY	SCORE FOR AGREEMENT ON 10 KEY VOTES	PERCENTAGE AGREEMENT WITH US ON ALL GA VOTES
FRG	+9	76.6
ISRAEL	+9	86.2
JAPAN	+9	67.2
UNITED KINGDOM	+9	80.1
AUSTRALIA	+8	64.6
BELGIUM	+8	74.4
CANADA	+8	70.7
LUXEMBOURG	+8	73.7
NEW ZEALAND	+8	64.2
FRANCE	+7	68.8
ITALY	+7	67.9
PORTUGAL	+7	57.3

COUNTRY	SCORE FOR AGREEMENT ON 10 KEY VOTES	PERCENTAGE AGREEMENT WITH US ON ALL GA VOTES
GUATEMALA	+6	49.2
NETHERLANDS	+6	66.8
CHILE	+5	35.1
COSTA RICA	+5	29.4
DENMARK	+5	60.3
EL SALVADOR	+5	32.9
HAITI	+5	31.9
ICELAND	+5	58.4
IRELAND	+5	48.7
NORWAY	+5	59.8
PARAGUAY	+5	48.9
PHILIPPINES	+5	30.2
SPAIN	+5	51.1
SWEDEN	+5	43.0
URUGUAY	+5	36.4
AUSTRIA	+4	40.6
BAHAMAS	+4	31.3
BRAZIL	+4	27.2
COLOMBIA	+4	27.7
EGYPT	+4	26.2
HONDURAS	+4	36.2
SINGAPORE	+4	30.8
SOLOMONS	+4	34.2
ST. LUCIA	+4	35.2
THAILAND	+4	26.6
TURKEY	+4	44.6

COUNTRY	SCORE FOR AGREEMENT ON 10 KEY VOTES	PERCENTAGE AGREEMENT WITH US ON ALL GA VOTES
UPPER VOLTA	+4	22.3
ZAIRE	+4	28.3
ANTIGUA & BARBUDA	+3	25.0
DOMINICAN REPUBLIC	+3	30.1
DOMINICA	+3	23.5
FIJI	+3	31.6
IVORY COAST	+3	30.4
JAMAICA	+3	24.0
LIBERIA	+3	29.0
MOROCCO	+3	31.8
NEPAL	+3	26.5
SAMOA	+3	30.2
SWAZILAND	+3	16.9
BANGLADESH	+2	22.8
BURMA	+2	27.1
CAMEROON	+2	25.1
CENTRAL AFRICAN REPUBLIC	+2	25.0
DJIBOUTI	+2	23.7
ECUADOR	+2	24.9
GREECE	+2	33.2
INDONESIA	+2	24.5
KAMPUCHEA	+2	28.0
LESOTHO	+2	23.4
NIGER	+2	22.0
PAKISTAN	+2	26.8
PERU	+2	23.8
SOMALIA	+2	30.6

COUNTRY	SCORE FOR AGREEMENT ON 10 KEY VOTES	PERCENTAGE AGREEMENT WITH US ON ALL GA VOTES
ST. VINCENT	+2	33.3
SUDAN	+2	26.0
ARGENTINA	+1	22.1
CHAD	+1	25.7
CHINA	+1	20.3
COMOROS	+1	20.0
EQUATORIAL GUINEA	+1	25.4
FINLAND	+1	43.2
GABON	+1	28.1
LEBANON	+1	31.5
MALAWI	+1	31.4
MALAYSIA	+1	25.8
OMAN	+1	24.3
PANAMA	+1	20.0
SAUDI ARABIA	+1	24.0
SRI LANKA	+1	22.0
TUNISIA	+1	24.0
ZIMBABWE	+1	12.8
BARBADOS	0	22.1
BELIZE	0	17.9
BOTSWANA	0	20.0
GAMBIA	0	20.3
MALDIVE	0	21.8
PAPUA NEW GUINEA	0	30.4
ROMANIA	0	19.4
RWANDA	0	21.6
SENEGAL	0	25.8

COUNTRY	SCORE FOR AGREEMENT ON 10 KEY VOTES	PERCENTAGE AGREEMENT WITH US ON ALL GA VOTES
TRINIDAD & TOBAGO	0	24.8
BOLIVIA	-1	18.5
MALTA	-1	24.7
NIGERIA	-1	20.5
SURINAME	-1	23.5
TOGO	-1	24.1
VENEZUELA	-1	25.0
ZAMBIA	-1	20.6
BHUTAN	-2	19.5
BURUNDI	-2	21.1
JORDAN	-2	20.8
KENYA	-2	22.4
MAURITANIA	-2	23.1
MAURITIUS	-2	17.3
YUGOSLAVIA	-2	19.0
ALBANIA	-3	8.8
BAHRAIN	-3	20.6
GUINEA	-3	19.2
GUYANA	-3	17.5
KUWAIT	-3	20.2
MALI	-3	20.6
MEXICO	-3	19.9
QATAR	-3	20.7
SEYCHELLES	-3	12.8
VANUATU	-3	12.9

COUNTRY	SCORE FOR AGREEMENT ON 10 KEY VOTES	PERCENTAGE AGREEMENT WITH US ON ALL GA VOTES
CYPRUS	-4	19.9
GUINEA-BISSAU	-4	13.9
GHANA	-4	20.1
INDIA	-4	17.2
SIERRA LEONE	-4	20.3
TANZANIA	-4	20.3
UNITED ARAB EMIRATES	-4	20.2
YEMEN, NORTH	-4	18.4
CAPE VERDE	-5	10.4
IRAQ	-5	16.3
SAO TOME	-5	15.1
UGANDA	-5	17.9
BENIN	-6	14.2
IRAN	-6	14.8
MADAGASCAR	-6	14.9
ALGERIA	-7	12.8
BULGARIA	-7	20.9
BYELORUSSIA	-7	20.6
CZECHOSLOVAKIA	-7	20.5
GDR	-7	20.1
HUNGARY	-7	21.0
MONGOLIA	-7	18.3
POLAND	-7	18.9
UKRAINE	-7	20.6
USSR	-7	20.6

COUNTRY	SCORE FOR AGREEMENT ON 10 KEY VOTES	PERCENTAGE AGREEMENT WITH US ON ALL GA VOTES
ANGOLA	-8	14.2
CONGO	-8	16.0
ETHIOPIA	-8	12.2
LAOS	-8	11.4
MOZAMBIQUE	-8	11.2
NICARAGUA	-8	14.3
AFGHANISTAN	-9	11.5
SYRIA	-9	14.4
VIETNAM	-9	10.3
YEMEN, SOUTH	-9	12.4
CUBA	-10	10.5
GRENADA	-10	9.3
LIBYA	-10	13.6

Description of 10 Key Votes

37th General Assembly (1982)

1. Cambodia (A/RES/37/6): This resolution called for self-determination for the Cambodian people and for the withdrawal of all foreign forces. It passed by a vote of 105 (US) - 23 - 20.

2. Afghanistan (A/RES/37/37): This resolution reaffirmed the right of the Afghans to self-determination and called for the immediate withdrawal of foreign troops. It passed by a vote of 114 (US) - 21 - 13.

3. Chemical Weapons (A/RES/37/98D): This resolution requested the Secretary General to investigate reports of violations of the protocol on gas and bacteriological warfare, and to maintain lists of qualified experts and laboratories to undertake such investigations. This resolution passed by a vote of 86 (US) - 19 - 33.

4. El Salvador (A/RES/37/185): This resolution critical of the human rights situation in El Salvador ignores both the March 1982 elections and subsequent human rights progress and calls for power sharing with leftist guerillas. It passed by a vote of 71 - 18 (US) - 55.

5. Israeli Credentials: This was a motion sponsored by the Nordic states calling for no action to be taken on an Iranian amendment raising a challenge to Israeli credentials. It passed by a vote of 74 (US) - 9 - 32.

6. Apartheid (A/RES/37/69A): This separately voted upon paragraph in a larger resolution expressed "grave concern" about U.S. policies and actions that provide "comfort and encouragement to the racist regime of South Africa." It passed by a vote of 73 - 26 (US) - 31.

7. Nuclear Neutron Weapon (A/RES/37/78E): This resolution asked the Disarmament Committee to start negotiations on a convention prohibiting the production, stockpiling and deployment of the neutron bomb. It passed by a vote of 81 - 14 (US) - 52.

8. Puerto Rico: This was a Cuban-sponsored motion to inscribe the question of Puerto Rico on the General Assembly agenda. It was defeated by a vote of 30 - 70 (US) - 43.

9. Programme Budget (A/RES/37/243A): This resolution approved the UN revised programme budget for the 1982-83 biennium, including 5 per cent real growth in programme expenditure. It passed by a vote of 117 - 14 (US) - 12.

10. Golan Heights (A/RES/37/123A): This resolution labeled Israel a non-peace-loving state and its annexation of the Golan Heights an act of aggression, deplored the U.S. veto of a SC resolution on this issue, and called for the total isolation of Israel. It passed by a vote of 87 - 22 (US) - 31.

NOTE: The performance of UN member states on these 10 key issues has been scored in the following manner: one point is added for each vote in agreement with the U.S.; one point is subtracted for each vote in opposition to the U.S.; and abstentions or absences are not counted. Thus, perfect agreement with the U.S. yields a score of +10, and total opposition to the U.S. yields a score of -10; a country that voted with the U.S. 5 times, against us twice, and abstained or was absent 3 times, would have a score of +3; and so on.

U.S. POSITION IN U.N.

Ambassador **Kirkpatrick**. Thank you, Senator Kasten.

It is a pleasure to see you again, especially after our association during last year's General Assembly.

I might just add here that I believe that you and Senator Johnston made a very major contribution to our delegation's activities during the last year, and I always welcome very close cooperation with the Congress. In my experience in my two General Assemblies, it has been exceedingly important to have effective, active delegations from the House and the Senate with us.

By way of summary of my statement, I would say simply that what I do in that statement is explore the U.S. position in the United Nations today with reference specifically to the importance of the United Nations and its bodies to us.

Second, our problems in those bodies, our problems being really the quite low levels of U.S. influence in the United Nations. I point out there, as I have pointed out repeatedly, that this is not a condition of recent origin. It has, in fact, characterized U.S. participation and role in the U.N. system for well over a decade, close to two decades now.

Third, I try to examine what the bases of our relative impotence in the U.N. system are, and I find that in the politics of the U.N. system, my theme song you might say, is that the U.N. is a political body and must be understood as a political system in which politics takes place just as politics takes place in the Congress of the United States.

Fourth, finally, I speculate a bit about how we might become more effective in the politics and always with the assumption that our goals, which we would like to become more effective, are of course the implementation of the basic goals of the U.N. charter which are to secure the peaceful resolution of conflict, the protection and retention of respect for human liberties and human rights and promotion of economic development.

I offer a few suggestions and one of the key ones concerns the importance, I think, of a closer relationship, more systematic relationship between our bilateral and multilateral strategies and policies.

I might add in that, as in all aspects of our foreign policy, I believe Congress has a very important role to play and a contribution to make.

Thank you.

SITUATION IN CENTRAL AMERICA

Senator **Kasten**. Thank you very much.

We are going to talk about the United Nations, but I also would like to ask one question having to do with Central America because it is so much on everyone's mind.

The press has reported essentially a three-prong plan attributed, in part, to you for emergency military aid, for humanitarian aid, and for a conference among Central American governments to facilitate solutions to the conflict in Central America.

I wonder if you could expand on these suggestions, and particularly the necessity for emergency military aid at this particular point, given your assessment and the administration's assessment of the situation in El Salvador?

Ambassador **Kirkpatrick**. Yes, Senator Kasten. As you know, the President and the Secretary of State asked me to undertake a trip to the region. I took that trip last month, the beginning of last month, departing on the 3d and returning on the 12th.

I visited five countries, Panama, Costa Rica, Honduras, El Salvador and Venezuela. In each of those countries, I spoke with the presidents, foreign ministers, each at some considerable length, vice presidents in some cases, defense ministers where relevant, labor leaders in all countries, free trade union leaders, arranged for me by the AFL group, generally representatives of the private sector and leaders in the educational field, as well as the principal journalists.

I think it is fair to say that I came away with a fairly clear impression of how the leadership groups, broad leadership groups in those societies see the problem in Central America today.

I tried to function as a social science researcher in large measure asking open-ended questions to get at my informant's view of the situation rather than trying to impose on them any views that I had.

I concluded from the trip that first of all the level of concern in the region, and I say in the region, is very high. The level of concern about peace in the region, level of concern about the extent of Nicaraguan military buildup in the region is very high, the level of concern about U.S. unconcern is very high.

For example, I was surprised at how much note had been taken by leaders in all those countries of the U.S. Congress reluctance with regard to the Caribbean Basin Initiative [CBI]. The reason why they were particularly concerned about the level of U.S. unconcern, as they put it, is that again they see very large evidences of a major commitment of Soviet and Soviet bloc resources to the region.

I heard about this first in Panama where I encountered stories about 100 fully funded fellowships for Panamanians to study in the Soviet Union and the Eastern bloc. It was pointed out to me that this contrasted with two or three or four at the most U.S.-funded fellowships available to Panamanians.

They pointed out that the upper classes, the wealthy, in Panama have always sent their children to the United States in large numbers to be educated here, but that that left the whole of the Panamanian middle class, which is a growing middle class and, of course, the working class, without any opportunity for contact with the United States.

They were concerned most with no contact with American democracy and no opportunity to form views of the United States from any other source than their most powerful radio station in the area which is Vincerenmos, or Eastern bloc experience. They took this to be the evidence of the level of Soviet commitment to the area.

In Costa Rica I heard about the hundreds of such fellowships, much higher levels of funding; 700 was the figure I encountered 2, 3 times.

Let me say I don't have any independent confirmation of these figures, but these were figures that were used by the leaders to whom I was speaking. I heard about levels of educational commitment, levels of cultural communication commitment on the part of the Soviet Union, powerful transmissions around the clock from radio Vincerenmos.

In Costa Rica there is very great concern about near saturation of Costa Rican airways now after 11 by radio Managua and Nicaraguan television. They think they are the object of a powerful propaganda cultural offensive, as it were.

Labor leaders are being invited to Cuba and Eastern bloc countries in significant numbers, again with very small U.S. parallel programs.

Now it is in this context, a context which includes more specifically the very significant Nicaraguan military buildup in the area and the Cuban military presence in the area. They are very well informed about the military buildup in Nicaragua. They know something about the kinds and amount of Soviet weapons in the area, et cetera.

It is in this context that they feel and express again and again deep concern that they are a target, that the U.S. Congress does not seem to either know or care much about this, the American people or the American Government don't—I don't want to just focus on the Congress.

There was a lot of specific comment on congressional inactivity as a reflection of the problem with regard to the CBI and Radio Marti specifically.

MILITARY SITUATION IN EL SALVADOR

Now, in addition, specifically with regard to the military situation in El Salvador, I was told repeatedly that "You North Americans don't like to talk about dominoes and dominoe theory," but in that region they feel that contagion is very high in that culturally homogeneous region, that there are no historic barriers like animosity and war, and so forth, to contain the spread of movements from one country to the other, and they deeply fear that any failure in El Salvador or success by the guerrillas will lead very quickly to a full-stage focus on Honduras next, of which they have already a number of evidences of such focus, let me say, Guatemala, Costa Rica and Panama.

In that region one hears that Mexico is not immune to this contagion any more than the rest of them.

RECOMMENDATIONS FOR CENTRAL AMERICA

On the basis of all these conversations and a lot of related ones, I concluded three recommendations basically which I have made.

One, that there is a very large need for immediate, as it were, assistance, military assistance, to El Salvador. This would not constitute additional assistance over the levels we have been providing.

What it would do instead is bring the level of military assistance for this year up to the level for last year and the level requested by the administration for next year, namely in the neighborhood of $85 million.

As you know, the Congress provided a small portion of that. The administration did not ask Congress to provide the full portion in earlier hearings.

The guerrillas in El Salvador are well armed. The supply of arms to the guerrillas is continuing and the level of sophistication of the arms not infrequently exceeds that sophistication of arms available to the El Salvador guerrillas.

In other words, the guerrillas are better armed than the Government, not always, but not infrequently.

Second, the Communist team, for example, of the guerrillas, I was told, was more sophisticated than that available to the Government. That is just provided outright by the Soviet bloc, of course.

There has been a lot of talk about whether I came back with a report that there was a critical situation. The answer is that I did not.

What I came back with was a clear sense that there would be a critical situation if the Soviet Union continues to provide support, the Soviet bloc, I should say, continued support at high levels to the guerrillas of military assistance while the United States dramatically reduced its military assistance to El Salvador. That was my first recommendation.

The second recommendation concerned economic aid. There are miserably poor people in this region, miserably poor. Hunger is not uncommon in Central America. There is very widespread malnutrition in Honduras and El Salvador. I find it shocking and disturbing, and entirely unnecessary, let me say, that the United States should not be providing greater immediate short-range food assistance to these countries.

I understand that some people think that it might interfere with their long-range development program, but war is interference with the development of a long-range program.

Some people think we might have problems delivering further food aid in the region, but I have no doubt with a little Yankee ingenuity we could overcome those problems. They need long-range development support. The economic problem in the area is acute. It comes from several sources.

First, they are the victims of worldwide economic depression.

Second, they are victims of the dramatic decline of the prices of their major products which, of course, are coffee and bananas and such.

Third, they are very especially victims of the unavailability of credit and that unavailability of credit again has worldwide origins; the banks, sensing Third World economic problems, have partly dried up their credit sources, credit availability. But more important, in Central America the banks have simply become very unwilling to lend money to any of the countries in Central America, apparently because of their fear of political instability.

You know, Central America was growing at the time the insurgencies began. Economic development was proceeding rapidly at the rate of 5 percent a year often in several of those countries, 3½ to 6 percent actually in each country.

They had some basic institutions for economic support. They had Inter-American Customs Union, they had an Inter-American Bank to provide credit. Those have been devastated by the guerrillas, a tax on the regions in fact.

So their need for economic aid is much greater than that of many areas of the world.

I would argue also that it is much more directly germane to the U.S. international interests in some other areas of the world.

My third recommendation was not so much that we promote a regional conference as that we stand aside, as it were, and place no obstacles in the pathway of nations in the area seeking to organize a regional conference which would focus on regional problems from which the United Nations would be excluded, we would not be invited, we would not take part.

Senator **Kasten**. Thank you.

As you know, tomorrow morning we are going to reconvene the meeting that we were all part of a week ago. I believe that a consensus is being achieved now in the Congress for not simply a $60 million drawdown on the 506 fund for military aid, but rather a combination of reprograming, possibly some kind of drawdown, and a supplemental bill which together will combine economic and military assistance.

I am hopeful on a bipartisan, bicameral basis we are going to be able to develop the political strategy and the groundwork that we need to give the kind of help and assistance that you are recommending.

I also think that we should not look at the fact that a conference is being called of Central American Governments, and we are not a part of it, and that somehow that means that they are critical of us. I think just the opposite. They have an opportunity and responsibility, and I think the fact that we are not a part of it might make it even more healthy.

Ambassador **Kirkpatrick**. It certainly helps to emphasize the fact that it is their faith above all that is at stake here.

In the first instance, it is not a United States-Soviet Union conflict. There is a question of the protection of the national independence, territorial sovereignty and self-determination and self-government of small independent nations who deserve to survive.

Senator **Kasten**. Senator Rudman.

Senator **Rudman**. Thank you, Mr. Chairman.

CONGRESSIONAL SUPPORT FOR CENTRAL AMERICAN REGION

Madam Ambassador, I was kind of surprised to hear you state, although it is probably true, that you found leaders in the Central American countries expressing a view that we were unconcerned here in the Congress about these problems.

As I look at the numbers in front of me, it is an interesting kind of unconcern. We have come up with close to $1 billion just for El Salvador in the last 8 years. That is kind of a high level of unconcern, it seems to me.

Ambassador **Kirkpatrick**. I think, first of all, they did not say unconcern. If I said that, I misspoke.

They again and again expressed the view that the level of concern of Americans and the American Congress was not equal to the problem as they feel it and see it and live it.

They think the problem is greater than they believe Americans think it is. It is their lives after all that are at stake and their liberty. They think that the Soviet commitment in the region is so large and so persistent and so long range through these educational, economic, et cetera, programs as well as short range through guerrilla programs.

What they were above all concerned about, talking about, was the reluctance as it was on the CBI and Radio Marti. They were very concerned about the Cubans and the Nicaraguans coming to dominate their airways, for example. But it was relative. It is relative to the Soviets and relative to the way they perceive and feel the problem.

COMMITMENTS TO CENTRAL AMERICA

Senator **Rudman**. I think one of those points is well worth discussing rather than discussing the intricacies of each of these appropriations which we tend to get into.

You make the observation that they look at the Soviet long-term as well as short-term commitments. I think the concern we have in this subcommittee, I think the concern of the Congress, the concern of the Nation, is with our long-term policy in El Salvador. When we are asked to supply an additional $60 million in military aid, which is a very small amount of money, it will not buy that much. If it is needed to offer, as Senator Jackson said on national television yesterday, a shield for the Government until it can in fact build the infrastructure, have the elections, I expect that it will be supported.

I think the critical point here is that we hear testimony, we read news articles of the Soviet and Cuban commitment to students, athletic programs, cultural programs, bringing these young people to the Soviet Union, to the Eastern bloc nations and essentially giving them a very slanted view on their way of life and bringing them back into Central America where they become leaders within these movements.

Why doesn't the administration have up front the same kind of policies that are dramatized in a way that your request for military aid is dramatized?

Would that not capture more the minds of the American people as to what we are trying to really do down there?

Ambassador **Kirkpatrick**. May I say that I fully expect the administration will focus on longer range concerns. I think we are talking and thinking in terms of some very short-range responses to some short-range problems and then upgrading to longer range responses to longer range problems.

I think, by the way, that the CBI as designed and supported and presented is a very large step in such a direction, but it requires further development.

May I just say in response to this that the administration, I believe, has made very clear, the President himself last week and Secretary Shultz made very clear, the desire of the administration to work with the Congress to develop an adequate response to the broad problems in this region.

I would hope that we could count on that consultation and that the congressional input would contribute importantly to just such programs as you described.

Senator RUDMAN. In your own writings you have observed the long-range policies of this country, we always seem to be neglecting long-range policies, and we end up with short-term requirements for guns, bullets, and bombs. We may need them, too.

But the fact is that in terms of setting forth a policy that is clearly understandable to the American people, who get the feeling sometimes that we are always too late with too little, that this administration could make a major step, and we have people like yourself, Madam Ambassador, that have the ability and knowledge to do it, to come forward with imaginative programs so what we are not doing is debating another $60 million for some more M-60 rifles.

That is the problem. That is the problem most of us face who want to support the administration, that we don't see visible, viable programs that are going to help the people of those countries so that they are not subjected to the kind of situations the guerrilla movement subjects them to.

UNDERREPRESENTATION OF UNITED STATES IN UNITED NATIONS

I have one question about the U.N. There has been criticism lately of the U.N. Secretariat and the various agencies, that with all the money we contribute, a quarter of the total U.N. budget, we are rather underrepresented on the Secretariat staff and various agency staff. Because we are underrepresented in the United Nations, we tend to have our views not often put to the forefront as we would like them to be.

Would you like to comment on that?

Ambassador KIRKPATRICK. I think that we are underrepresented with our total contribution which I hope we will have a chance to talk about this morning. Our total contribution is larger and more diverse than it appears at first blush.

We do a lot of contributing in kind, and so forth, too. We work on that all the time. The fact is that the U.S. position inside the United Nations in a broad spectrum has deteriorated; I would have to say been permitted to deteriorate, probably a bit at a time over a period of 10 or 15 years. This is one of them.

It is very difficult, by the way. The competition for those positions is very tough. I personally talk to the Secretary-General about personnel matters in the U.N. system probably once a week, certainly once every 10 days, and at lower levels we are in continuous touch with personnel agencies and deputies, under secretaries, and so forth.

I am not at all satisfied with the progress we have made, let me tell you frankly, and we have to continue to work on it. I think we must improve the situation.

Senator RUDMAN. I don't think anyone here is going to suggest proportional representation, proportional to financial contribution, but it seems when you look at the composition of those staffs that we are so underrepresented as to make it very difficult sometimes to have our views developed by the staff which often develop the views in that body as they do in this.

I would hope that that is something that might be addressed more vigorously in the coming year.

Thank you, Mr. Chairman.

Senator KASTEN. Senator Specter.

Senator SPECTER. Thank you, Mr. Chairman.

EL SALVADOR'S COMPLIANCE WITH STATE DEPARTMENT REQUIREMENTS

Ambassador Kirkpatrick, I would like to ask you about the report filed by the State Department on January 21, 1983, concerning compliance by El Salvador with the requirements established by the Congress. I had asked Secretary Shultz about this last week because of the concern that I have that the requirements established by the Congress have not been met.

The State Department did issue a certification, but it is my thought that based on the facts themselves which are set forth in the State Department report that there has really not been the kind of compliance that the Congress has required for a continuation of support to El Salvador.

I was interested to hear your comment earlier this morning that you think that there ought to be a coordination between the administration and the Congress to establish the objectives, the ground rules for proceeding in El Salvador.

The January 21 report refers to political violence and it says,

> Political violence continues to diminish, although at a slower rate than at the time of the previous certification. Efforts to control abuses by members of the armed forces were the subject of increased attention by the Government of El Salvador and continue to show slow progress.

On page 2:

> It is nonetheless clear in this report document that human rights abuses continue and that the further development of democracy and protection of human rights are not to be taken for granted.

Moving on to page 3, there is a citing of statistics,

> That civilian deaths have improved because now they are no higher than 200 a month in the last six months of 1982. That is a sign of progress by comparison with the prior period back in 1980 when there were 800 deaths a month.

My own thinking is that if you have as many as 200 deaths a month, it is not satisfactory and that it cannot be judged satisfactory by comparison with a prior higher figure.

The question I have is what is your sense of progress in El Salvador in accordance with the standard which the Congress established?

Ambassador KIRKPATRICK. I am very glad you asked me that question, Senator Specter.

I would like to say that first I have no independent knowledge of the data presented in the certification report. My understanding is that they were not only carefully, but painstakingly gathered and presented. The staff worked very assiduously and hard on it.

The whole question of controlling violence in an area suffering a guerrilla war is, of course, a very difficult one. Frankly, it is a little difficult to know how anyone can reasonably expect that the level of violence will diminish dramatically, that the number of deaths will go down at the same time as the guerrilla war is in full swing in the country.

It is the very nature of guerrilla war that it involves itself and wraps itself around the civilian population. This is true of terrorism, it is true of guerrilla war generally. As you know, this is a phase of guerrilla war, war on which the El Salvadoran conflict rests by their analysis of that definition.

I think it is grossly mistaken for anyone to imagine that when we talk about civilian deaths in El Salvador or any other country in the throes of a guerrilla war that we are talking about some sort of wanton abuse of the civilian population by the Government.

What we are talking above all about is a society in which the lines between civilian and military, as it were, between battlefield and civil strife, have been very deliberately, not only blurred, but in many cases obliterated by the tactics of guerrilla war.

I think this is simply basic, and it really must be borne in mind if one is going to make reasonable judgments about the Government of El Salvador.

I would like to say with regard to that Government that I was personally acquainted with the leaders, most of the leadership of the previous Government of El Salvador, the government of Napoleon Duarte and his ministers. At least one of them was a Georgetown alumnus.

I am less acquainted with the current Government, but I had an opportunity when I was there to spend several hours with the President, and I did know the foreign minister, which, of course, was the same.

I am, myself, persuaded that these are not only honorable men, but that they are very seriously, very earnestly engaged in an effort to the maximum extent of creating a society which will respect law and the rules of democracy. I think that their effort is noteworthy and as a matter of fact praiseworthy.

Now, they do not control the society. Obviously if they controlled the society, there would not be a guerrilla war going on there. The very fact that there is guerrilla war means that they have very incomplete control.

I think that as they are establishing control over, first of all, their own armed forces and also the territory of the country they are making progress.

May I just say also that I arrived there not long after the certification procedure had been completed. They found it a very demoralizing procedure. They hope that it is not going to be continued too long in its current form because they think that it creates a very difficult situation for them in which it is virtually incumbent upon them to prove in almost every case that in prosecuting the war and defending themselves against sustained guerrilla attacks, hit and run all over the country, they may find themselves guilty of violations which will endanger their certification.

I should also like to say, if I may, that there is a great deal of violence in the world and the United States provides a good deal of aid to a good many countries in which there are very high levels of violence.

In the last month, for example, just to take two examples at random, we have read in our newspapers about very high levels of civilian deaths in Zimbabwe and in India.

Now, both of those countries are countries which have received large quantities of U.S. aid over a long time. Presumably we will not assume—I don't know, maybe we will, maybe we won't—I don't know what kind of assumptions the Congress will make about that—but I would say in principle there is no more reason to suppose that the Government of El Salvador can control the situation in which it finds itself and the flow of violence all around it than either of those governments, and there are others. I could name several. I am sure you know them as well as I.

CRIMINAL JUSTICE SYSTEM IN EL SALVADOR

Senator **SPECTER**. Ambassador Kirkpatrick, what about the criminal justice system?

At page 4 under human rights the report of January 21 specifies that the criminal justice system remains flawed and there have been reports about cases where there is substantial evidence of criminal conduct, of murder, where individuals are not being tried, remain on bail, free to commit similar acts.

There seems to have been a major breakdown of the criminal justice system.

Ambassador **KIRKPATRICK**. There certainly has been some breakdown in the criminal justice system or at least we can say that implies if not better, it is not worse.

I am not sure what the measuring rod is, the baseline is. But it doesn't function in the way in which it did in all cases. I think again we have to look at two things.

One, the condition that guerrilla war brings to a country in which systematic judicial intimidation is a reliable aspect of it. In every country where there is significant terrorism, systematic intimidation and murder of judges becomes an aspect of it.

You might say in an adequate system the judges would not let themselves be intimidated, but we know it happens. If you look, for example, at the extent to which the judiciary became a target in Italy for a period, it is an interesting illustration of that process.

Senator **SPECTER**. I am not talking about intimidation of the judiciary.

What I am talking about are serious charges against individuals who are simply not brought to trial, very substantial evidence of murder, and they are not brought to trial.

You can justify or seek to excuse a failure to comply with a number of human rights aspects on grounds that there is a war going on, and you can't protect the civilian population. That becomes a very complicated question of fact as to whether the Government is doing as much as it could do or should do in accordance with the standards which the Congress has set.

But if you deal with specific cases where individuals have been charged with murder, and there is substantial evidence against them, and they are not brought to trial, how can you justify that?

Ambassador **KIRKPATRICK**. One, I would not attempt to justify it. Two, I would not attempt to excuse it.

But, three, I would in fact seek to try to discover what is going on there.

The reason I referred to judicial intimidation is precisely a case, there is a famous case, and it is the only one of which I am aware in which a person against whom it is felt there was substantial evidence was charged in the El Salvador courts and there was no indictment, as it were, or he was indicted and was not found guilty, they did not proceed with the prosecution.

There are two explanations for that that are offered that I have heard. Neither is by way of justification.

One, the explanation is that under the Napoleonic code evidence is not acceptable whose source is persons also accused of the same crime.

Second, that there was judicial intimidation.

The judges in that case themselves made the decision that there was not adequate evidence of an acceptable sort to proceed.

I don't have any independent judgment about that again. That is the reason I mentioned the case of judicial intimidation. What one has to say about El Salvador's judicial system, on which I am not an expert, is that it obviously does not work as we would like it to work, but it works reasonably well by most people who observe it closely.

I don't know whether we would want to decide that we would want all countries whose judicial systems do not meet our standard to fall to Communist control. That is the alternative concept.

Senator SPECTER. I know my time is up, Mr. Chairman, so I will finish with this comment at this stage.

I point to the judicial system as a baseline to try to evaluate whether the explanations for failure to comply are satisfactory or not. This is a very difficult matter to judge when the State Department report on its face criticizes what is being done in El Salvador, talks about slow rate of progress and about unsatisfactory results.

When you come to the issue of the judicial system, and you may have intimidation which may explain some cases, but does not explain all the cases, you may have lack of evidence under the Napoleonic code which would explain failure to prosecute in some situations, but there are many cases where they simply are not being brought to trial.

I think that is an indicator of credibility, of the insincerity of the real efforts of the Government, and if there is evidence and the cases can proceed to trial, they should. If the judges are going to be intimidated and acquit, so be it.

You can't control that from the Dirksen Building. You can't control very much from the Dirksen Building, but you can make the suggestion that the cases do go to trial so that the people at least who are charged have the risk of conviction. That is something which is apart from the milieu of violence in the streets where civilians may be killed and that is a standard I think we ought to hold them to.

It may be that that is something we can judge, something that Senator Rudman and Senator Kasten and Senator Specter know something about. It is very hard to judge what else goes on.

VOLUNTARY CONTRIBUTIONS TO U.N. ORGANIZATIONS

Senato **KASTEN**. Let me see if I can switch to the United Nations.

The voluntary contributions to various U.N. organizations which we fund are at the present time not targeted, are not earmarked in any fashion, but simply given to the general fund of the particular organization for whatever purposes that that particular agency or organization sees fit.

It is my understanding that a number of countries follow a different procedure whereby they target their contributions or earmark their contributions toward particular kinds of projects.

Why would it not be a good idea for the United States to target our contributions to these organizations and to these voluntary agencies?

Ambassador **KIRKPATRICK**. Senator Kasten, I think this is a question that we need to examine very carefully. We have not done so because we have wanted to be good citizens, as it were, of the United Nations.

I think we have been good citizens. We have understood that it takes administrative expenses to support an organization, the Secretariat has to be supported, and that for the sake of helping the U.N. manage its own resources and budget we have not earmarked our contributions. A good many other countries do, as you suggest.

I had an interesting example of one of the consequences when I was in Honduras. In Honduras I visited the United Nations' High Commissioner for Refugees camps on the border of Honduras and El Salvador. I may say I have regularly visited UNHRC camps when I visit the countries.

I also visited United Nations Development Program [UNDP] offices, and I met after that with all of the U.N. officials operating in Honduras, directors of the programs.

In the course of hearing a comprehensive report on their programs I listened about four times to glowing references to a special fund of some million and a half dollars which the Netherlands had provided to Honduras, which is earmarked for raising health standards and medical practice in regard to infants. About 4 times people referred to the generosity of the Government of the Netherlands in providing this special grant aimed at improving maternal and infant care.

The fact is that it is a small grant relatively. No one referred in any way to the fact that the United States funded rather more than a quarter of the program, probably a third of the total program in Honduras. There is no credit available to the United States for that funding, which is not so important vis-a-vis the U.N. Secretariat as it is vis-a-vis the Honduran people.

It might be useful for them to know that, in addition to getting a special million dollars worth of help from the Netherlands, the United States is also concerned about maternal and child care, or that we are also concerned about refugee health, or whatever.

So, I think that when other nations earmark and we don't earmark, we end by reaping, with regard to both the U.N. Secretariat and with regard to the recipient populations, less credit than would be our just due, as it were.

I think that we ought to probably consider seriously earmarking some of our contributions.

Senator **Kasten**. One question is whether within the U.N. group as such we choose to earmark and the other is whether participating in those kinds of programs, participating through the U.N. or other multilateral organizations, is better than simply bilateral aid. This is the next step from what we are discussing. I agree with you that we ought to consider some kinds of earmarks. The administration, especially Secretary Shultz and yourself, are to be congratulated, I believe, for the manner in which you handled efforts in the United Nations to deprive Israel membership in the U.N. organization.

Did that stand taken by the Secretary, you, and others put to rest the continuing effort by some nations to question or to deny membership or deny certification of any nation in any United Nations organization or do you look at this as a continuing battle that is likely to go on?

Ambassador **Kirkpatrick**. I think our clear, firm stand for which the Congress deserves a great deal of the credit as well as the administration's clear stand certainly enabled us to turn back the challenge to Israel's participation as a member in U.N. agencies last year.

I do not believe that we have settled the question forever; no. I think it is going to be a continuing battle. The evidence that I see is that there will be future challenges to Israel's participation and credentials, and that if we are to be effective in opposing those and defending the principle of neutrality which far transcends the question of Israel, we must be just as firm and just as clear as we were last year.

I would reiterate, I believe there is an important role for the Congress in this process.

ANTI-U.S. FEELINGS IN UNITED NATIONS

Senator **Kasten**. The point is that Libya as a terrorist state has countries speaking on its behalf, and no one is speaking on behalf of the United States

I understand in recent discussions in the Security Council with reference to the Libyan complaint about U.S. actions defending Sudan against Libya's aggression, that of the 26 countries that spoke, 24 of the countries spoke in favor of Libya.

This is part of a broader question having to do with the Third World.

Why is it that so many countries attempt to distance themselves from the United States, but seemingly make no efforts to distance themselves from Afghanistan or Vietnam or Libya?

And why is it that so many of our treaty allies so rarely speak up in defense of the United States?

For example, in the case of Nicaragua I think there are particularly blatant examples. This is part of a much broader question, problem that I guess has two parts.

No. 1, what can we do to encourage more help from our treaty allies, but more importantly what efforts can we make or should we make to encourage the Third World, the nonaligned, to take stands which certainly in general are consistent with their basic values and feelings?

It seems to me we ought to do more not only to encourage our allies, but also to request and to ask for the kind of support that I think we deserve from the Third World.

Ambassador **Kirkpatrick**. Senator Kasten, that is a question that has concerned me—I think the most basic question concerning U.S. participation and management of it in the U.N. system. It is, of course, a shocking thing when 24 nations out of 26 nations speaking identify themselves with the Libyan cause in an instance where Libya was very clearly about to be an aggressor acting with force against a fellow African country and also in which the United States violated no international law and nobody's rights.

That is shocking. It can be taken almost as an example of how bad the problem is for us in the U.N. It has a number of dimensions. I think they can all be summarized by saying that the Soviet bloc allies and clients and friends, those who depend on Soviet power and resources, are continuously mobilized in behalf of every cause involving any one of them.

One finds the whole panoply of Soviet client states speaking on every issue of concern to any of them, including all of the Eastern bloc states, the Third World Soviet client states, et cetera, et cetera.

That accounts for the 24 voices in support of Libya. What accounts for the lack of voices in support of us? We have not demanded, we have not even asked in fact to gain support of the people who benefited from our support. That is just a fact.

In the United Nations there clearly is a price that people pay—nations know it—for opposing the Soviet Union and for opposing various other bloc leaders. There is a price for opposing Libya, for example. But there has not been in human memory any price for opposition to the views and values of the United States.

Also there has not been any reward for loyal support of the values and policies of the United States either. So while on the one side there are both rewards and penalties, there have been neither rewards nor penalties associated with U.S. support. We have not even expected or requested that our treaty allies, as you suggest, speak.

You know, I had, frankly, more question about why some of the non-African nations did not speak in our behalf in the Libyan complaint than about the Africans. There are a number of nations in North Africa and Central Africa who have been the target of Libyan coup attempts, even assassination attempts in fact. We have heard about these; we know about them.

Most of the nations are relatively vulnerable to Libya. I don't feel so badly about their taking cover in a case where Libya is under attack, frankly. I can very well sympathize with the fear that prevents them from stepping forward.

They know what happened to Chad, as a recent example. There have been a great many rumors that Libya has been planning a reintroduction of troops into Chad. Those rumors have subsided for the moment, but the Libyan threat in that area is omnipresent, and they know it.

What about all our friends in the other places in the world? I think we just have to be a lot clearer, and this is why I think the linkage between bilateral and multilateral diplomacy becomes very important, I think we need to let nations know that if they are going to enjoy our support in bilateral relations, we expect from time to time to enjoy theirs in multilateral relations, particularly when we are the object of an attack as we were in the Libyan case.

Senator **KASTEN**. Senator Rudman.

Senator **RUDMAN**. I have just a couple of brief questions.

I think Senator Specter has a question which is far more interesting in light of your last comment. I will yield to him.

Senator **SPECTER**. I am going to yield to you. Go ahead, Senator.

BUDGET REDUCTIONS FOR UNDP

Senator **RUDMAN**. I want to point out two interesting budget anomalies in light of what I asked you earlier.

For the U.N. development program your request to the administration is down from $140 million to $120 million; on UNICEF from $42,500,000 down to $27,000,000.

Am I correct that both of those agencies are headed by Americans?

Ambassador **KIRKPATRICK**. You are; that is right.

Senator **RUDMAN**. So for two of the agencies headed by Americans we are evidently not suggesting real support, which kind of makes my previous question almost not worth asking about.

Ambassador **KIRKPATRICK**. Senator, if I may say so, U.S. support for those two agencies is very high, and our record of support is very strong. There are two reasons for that record of strong support. One is that we think they do good and important humanitarian work under efficient management. They also are run by Americans, and we appreciate that.

Now they are also the agencies to which we make the largest contributions, as I am sure you know from looking at the budget figures. UNDP is our largest contribution. If we are going to trim our budget, as we are always continually under pressures to do, then we have to trim across the board where we can afford it.

That does not mean across the board evenly, but where we can without endangering some really vital American national interests. Since those are our largest contributions, they naturally would bear in the administration's budget a share of the savings.

That is all I have to say. I will just say that everybody knows that the United States strongly and warmly supports those two agencies.

Senator **RUDMAN**. But less so this year than last year.

Ambassador **KIRKPATRICK**. More so this year than last year. In fact, the Congress and administration in joint decision increased our contributions during this current year to both those agencies.

We are proposing for next year some reduction which would bring them back really to where they were before this year's increase.

Senator **Rudman**. Evidently you and I did not study arithmetic from the same book, but I will go on from that.

JUDICIAL SYSTEM IN EL SALVADOR

I want to just comment on the question that Senator Specter asked you earlier, your dialog with him about the judicial system in El Salvador.

Is it possible that the real problem down there is that the honorable gentlemen whom you meet and who are well educated and who have all these good intentions really don't run the country at all, but the judiciary is intimidated by their own military?

Ambassador **Kirkpatrick**. First, I don't think the judiciary is regularly intimidated. As I said, I was referring to a particular case there, which is the only case I know, by the way, currently pending, in which there was a failure to press charges.

I think that the Government of El Salvador has imperfect control. I have already said that. I don't think that is a very damaging thing to say about it because most governments in lesser developed countries don't have perfect control over their population unless they are in fact a very highly developed dictatorship.

I think the Government of El Salvador has much better control over its own forces today than it did 2 years ago. I think there has been genuine progress on that front. I think outside the context of war there would be even more dramatic progress. That is all I can say.

Senator **Rudman**. Doesn't it, however, seem somewhat apparent from much we have seen and heard testified to before this committee and other committees, one of the problems in El Salvador—you know I am not blaming this administration for it, we can't necessarily get a handle on it—is the problem in the area that Senator Specter is addressing. It may well be that, though specific individuals are not actually intimidated, the fact that some of those prosecutions, which to most of us appear to be there for the asking, are not proceeded with is because in fact the military has a general intimidation and control over the civilian part of that government?

Ambassador **Kirkpatrick**. I do not believe that is the case.

Senator **Rudman**. We are glad to have your comments in the record.

Thank you, Mr. Chairman.

Senator **Kasten**. Senator Specter.

RECORD OF NATIONS VOTING WITH UNITED STATES

Senator **Specter**. Senator Rudman has referred to one of the statistics in your testimony that I had gleaned over and showed you. I was prepared to yield to him on the question to you on this. Since he has not taken it up, I shall pursue it at this moment.

I know in the appendix to your testimony where you rate the nations who have voted with the United States that Israel voted with the United States 86.2 percent of the time, well ahead of the No. 2 voter, United Kingdom—80.1 percent—and very far ahead of Australia and New Zealand, who I would have thought would vote much more with us, at the 64 percent level.

I note your statement on page 9.

> We must communicate that it is not possible to denounce us on Monday, vote against us on important issues of principle on Tuesday and Wednesday, and pick up assurances of our support on Thursday and Friday.

So that you would be articulating the famous doctrine of reward your friends and punish your enemies, which is not unknown of in American politics and might have some applicability in world politics.

Then as you thumb over to your appendix on page 2, El Salvador supported the United States 32.9 percent of the time. One would wonder, given the rating of El Salvador and Israel, why it is that the administration is requesting extra dollars to El Salvador and not to Israel.

Senator Rudman and I would appreciate your comments.

Ambassador KIRKPATRICK. I think we have provided Israel rather generously, haven't we? That is one thing I would say.

Senator SPECTER. How about for El Salvador?

Ambassador KIRKPATRICK. We have provided Israel a good deal more generously than we have El Salvador. I think we agree with that.

Nobody got really bogged down in talking about a $60 million supplementary appropriation to buy basic ammunition.

Senator SPECTER. I would dispute you on that. I think we are bogged down on $60 million.

Ambassador KIRKPATRICK. With regard to Israel?

Senator SPECTER. I did understand you to say that, but $60 million is still a lot of money——

Ambassador KIRKPATRICK. I say with regard to Israel. It was you, Senator, who made the comparison. I said I thought we had provided quite generously for Israel.

In the discussions of aid for Israel we did not get bogged down over $60 million. I think $60 million is a lot of money, too. This administration thinks it is a lot of money, but when we talk about sums of money and our aid programs, then we have to look at it relatively and comparatively—as compared, for example, to our support level for Israel, which I may say I thoroughly support, myself, and the administration supports—the figures are very, very different.

May I point out something else with regard to El Salvador and these statistics? You will notice that they measure agreement with the United States on all votes. Now there are a lot of ways of measuring U.N. votes.

In many ways I would have preferred to measure disagreement with the United States on all votes. Disagreement is perhaps an even more sensitive measure. You will find, by the way, Guatemala has the highest level of agreement with us, you will notice, on all votes of Latin American countries. This varies a lot from region to region.

The European level is generally higher than the Latin, the Latin is higher than African, the Asian is higher than African, the African is higher than Islamic, et cetera.

I would say about El Salvador and most of the Latin American nations except for Nicaragua and Cuba and two or three others which I won't name, we can get support from them on issues we regard are really important to us.

Senator SPECTER. We do exercise a little muscle from time to time.

Ambassador KIRKPATRICK. When we exercise a little muscle, Senator, we get good support out of our Latin friends, I will say that. We don't out of everyone.

I think if we made it clearer that someone noticed and someone cared and that the Congress thought about it when they think about assistance for a country, then I think we would get even better cooperation out of the regional groups.

FOREIGN AID QUESTION IN WESTERN PENNSYLVANIA COMMUNITIES

Senator SPECTER. Coming back to the $60 million and the subject of foreign aid generally, this is a subject which was explored to some extent with Secretary Shultz last week.

On Saturday Senator Heinz and I went to Midland, Pa., to have an open house to meet with several hundred citizens of that community where the Crucible Steel plant has departed, leaving 4,500 people out of work, perhaps the toughest hit town on a proportionate basis of any town in the United States.

After that open house we went on to a couple of others in western Pennsylvania and continued to get questions about foreign aid. The Pennsylvanians, and I think Americans generally, are more unhappy with foreign aid now than they have ever been in the past.

They raise the question again in very direct terms, why is the United States putting so much money into foreign aid at a time when unemployment benefits have lapsed and health benefits have lapsed and mortgage foreclosures are going forward, and I respond that the United States makes its allocations to foreign aid on items which we consider to be in our national interest, and they are not gifts, and it is not necessarily in the spirit of benevolence, although that is an attitude that is of very much concern to the United States, but there are hardheaded evaluations by the State Department and by the Congress in allocations of foreign aid, and we seek to do so where our national interests are very much involved and where our national interests are at stake.

After I have said it in just about those terms the followup question is: Why are we giving so much foreign aid to all those people when we don't have unemployment compensation, et cetera?

Can you help me on how to respond at my next open house?

Ambassador KIRKPATRICK. We both think and hope in this administration that there are going to be fewer unemployed in this country relatively soon, and that maybe the pressure won't be quite so intense.

I would say we believe that economic recovery is on the way, already underway, and that will in part provide employment and take off the pressure a bit. But I believe deeply that there is ultimately no response to the question except that we believe it [foreign assistance] to be very important to the U.S. national interest.

Now I think it is possible to demonstrate that very clearly, more clearly in some cases than in others. I believe personally we should give our humanitarian aid to multilateral agencies, generally speaking, and use our bilateral aid above all for programs which we think are directly in the U.S. national interest. I think that it is especially easy to demonstrate in the case of Central America.

I would be very happy to go with you to your open house and make the case there that it is in the U.S. national interest to provide——

Senator **Specter**. Accepted.

Ambassador **Kirkpatrick** [continuing]. Provide foreign aid in general and to El Salvador in particular because, you know, these countries, the Caribbean and Central American countries are on our border. The American people understand that it is dangerous to have Soviet military power projected right into our backyard, to have bases from which Soviet MIG's overfly our airspace, which indeed they can do now, to have submarine bases from which they can launch missiles which can penetrate our country.

I think the American people understand that. I think the American people understand the importance of the Panama Canal to us, the fact that half of our shipping supplies, for example, for NATO and Western Europe go via the Caribbean Sea.

There are some places in the world I might have a little trouble with, but not Central America.

Senator **Specter**. I think you may not be correct about that in terms of what the American people understand.

There is a growing disaffection with not only the foreign aid, but also with the heavy appropriations for the military. It is a changing mood and a changing climate from what it was in 1980 when President Reagan advocated these matters as part of the political platform on which he was elected and on which the Congress responded with very substantial increases for the Department of Defense budget in many lines. There is very much of a shifting of views.

I do accept your invitation. I will look for a particular open house. There is really enormous value. I think that one of the real beauties of our system is that those of us in the Congress have to go back, really have to go back or we probably wouldn't, it is not a voluntary matter that we spend our Saturdays, et cetera, on these tours, but we really learn a lot.

We learn a lot by talking to you under these delightful circumstances. We also learn a lot when we meet with the citizens as to what is on their minds. It is very direct and it is very forceful. They are not happy when the explanations are given very much as you and I agree, that we have to have foreign aid, and we have to have a strong military.

But there is a lot of discontent out there. If I had given them the answer that the economic recovery is on the way, I know they would have said to me, "Look, Senator, as soon as the economic recovery is here, you go ahead and give some of that foreign aid, but not until."

Ambassador **Kirkpatrick**. May I comment briefly?

Senator **Specter**. Certainly.

Ambassador **Kirkpatrick**. I don't doubt that at all, Senator Specter. My sympathy would be with them on their impatience with the economic recovery.

What I really wanted to say about Central America is that I think the American people have a good, clear, hardheaded appreciation of basic facts of U.S. national security. They know that we spend billions of dollars contributing to the defense of remote areas which we judge to be necessary to our national security and that of our civilizaton.

I think the American people will ultimately find it very strange indeed if while we contribute generously to the defense of areas on the other side of the world, we neglect to secure ourselves on our southern border. That is my point.

Senator SPECTER. Thank you.

Senator KASTEN. Thank you, Senator.

U.S. SUPPORT IN U.N.

I want to go back to the questions we were talking about in terms of help and participation and the positions that are taken not only by our allies, but by the nonalined.

Are there examples of particular countries which have been more helpful than others or particular countries that have been less helpful than others that we in the Congress should be aware of as we put together a foreign assistance package?

Ambassador KIRKPATRICK. I certainly think so. Service in the U.N. sensitizes you to the attitudes of countries in multilateral arenas. Votes are only one measure of the support countries give you in multilateral arenas. I can give you some clear examples.

In relation to this meeting of the nonalined, which is going on in Delhi right now, or in relationship to the Managua meeting of the nonalined of which the United States was a particular target, you may recall, certain countries take the leadership in trying to organize some of their fellow members to secure fair play for the United States.

I certainly don't mean, by the way, any kind of special favors for the United States. The only question for us in a nonalined meeting normally is whether we are going to be outrageously attacked in a very discriminatory fashion, as we were last year in a nonalined meeting where we were condemned again and again and again for crimes of which we were not guilty, or whether we are going to get a fair shake.

We almost never get a fully fair shake; it is a question of whether we get a fairer shake. Certain countries regularly are acting in our behalf. I hesitate to mention them because mentioning them constitutes a handicap for them in nonalined proceedings.

It is a fact that the dynamics of politics in the nonalined means that countries known to be particularly active on behalf of the United States on a sort of reliable and regular basis are vigorously attacked.

Those same 24 nations that turned out in support of Libya will turn out to, by fair means and foul, attack and practically wipe out the influence of nations that are regularly reliable on our behalf, simply active in seeking that we get as fair a shake as possible there.

With all due hesitancy, hoping to do them no harm thereby, I would say that outstanding among those nations in the last 12 months certainly have been Singapore, Egypt, and Zaire. They have regularly provided active leadership within the Asian group and the nonalined in African groups. They are not the only ones.

There were a number of other countries in the last nonalined meeting who were also active in our behalf, spoke on our behalf. Jamaica and Bangladesh did so and, in some cases, some of the Francophone African countries. Their voting records do not wholly reflect these roles. They also don't reflect roles inside the regional organizations like the OAU, but we know about them in New York, and people know about them inside the OAU and elsewhere.

It is dangerous for them because they pay a penalty for it. That is what I mean about penalties and rewards. Nations pay a penalty inside the nonalined bloc or inside the OAU for active support of the United States where support means giving us a fair shake.

Nobody pays a penalty to actively support the Soviet Union. Unfortunately nobody seems to get much reward for support of us.

Senator KASTEN. But they do get rewards and penalties with the Eastern bloc and with the Soviet Union?

Ambassador KIRKPATRICK. They play real hard ball.

PERCENTAGE OF U.S. CITIZENS HIRED BY U.N.

Senator KASTEN. One of the questions that Senator Rudman was concerned about and the subcommittee has been concerned about in the past has been the the low percentage of U.S. citizens hired by U.N. organizations.

At one time the United States participated in a program called the associate experts program whereby young professionals with educational, technical backgrounds, but with evidently little practical experience would be employed in entry level positions in the United Nations. I understand that we have pulled out of this program because of budgetary constraints.

It would seem that this program afforded U.S. citizens a way to work their way up or at least to get started in the system and possibly participation in this program could give the United States a higher profile in a number of U.N. organizations.

What are your feelings on the program? Do you think it would be worthwhile for us to reinvolve ourselves in this associate experts program?

Ambassador KIRKPATRICK. Let me say that we are looking into that very actively right now.

The new Secretary-General, however, has adopted a very strong position in favor of promotion from within rather than recruitment from without in relationship to the maximum number of jobs. That policy which is receiving unprecedented kinds of emphasis would lead us to believe that we ought to reassess the whole question of participation in the experts program, and we are doing it just now.

U.N. FUNDING TO PLO, SWAPO, AND CUBA

Senator KASTEN. Each year going back to 1979 the Appropriations Committee has included a provision in our bill which prohibits the voluntary funding by the United States from going to the

PLO, SWAPO, and Cuba. Some of us are now thinking about suggesting that rather than this restriction being placed in every appropriations bill, that it be made permanent law.

What would your reaction be to such initiative?

Ambassador **KIRKPATRICK**. I think that there is much to be said in favor of a permanent statement of any such restriction because it puts the U.N. and other relevant groups, on notice that this is indeed going to be U.S. policy, whereas when it is done on a kind of ad hoc basis they don't really know, and it tends to catch them by surprise.

MANAGEMENT OF UNRWA

Senator **KASTEN**. Last year and throughout the year the committee has had deep concern with the way that the United Nations Relief and Works Agency [UNRWA] is managed, especially in light of revelations of a few months ago that the UNRWA camps were being used as military training grounds for the PLO.

What is your current assessment of that organization and what is your understanding of our ability to monitor and to inspect those camps to find out exactly what is going on within the Agency?

Ambassador **KIRKPATRICK**. First of all, the UNRWA, as you know, is a unique approach to the refugee problem. The U.N. has the United Nations High Commissioner on Refugees [UNHCR] program which deals with other refugees in the world. It has a separate program for Palestinian refugees which is UNRWA.

The philosophies of those two refugee programs differ very greatly. The U.N. philosophy concerning the management of refugees, all of the refugees in the world, differs substantially from that of UNRWA.

UNHCR, for example, believes that it is always desirable where possible to insure that refugee status does not become permanent; that is that the people either return to their country of origin voluntarily, where that is possible and feasible, or that they are resettled in some other country where they can become part of the population rather than continue as refugees.

Now, UNRWA was developed as an agency specifically devoted to Palestinian refugees with a view, as it were, about the satisfactory resolution of that refugee status. The UNRWA doctrine does not, for example, foresee any end to the refugee status of the Palestinians except the establishment of a Palestinian homeland or the return to their place of origin. They do not seek resettlement, for example, because they conceive this as a long, long-range problem.

They have developed a very large and comprehensive kind of bureaucracy which includes all of the services associated with the whole society, medical services, schools, everything.

Naturally the UNRWA camps become sites of very intense Palestinian nationalism because people conceive their status as that of second-class citizens. The status of refugee is a very undesirable status in every place in the world including the UNRWA camps.

Since there is no hope except through the realization of the goals of Palestinian nationalism, the camps become sites of Palestinian sentiment. Now, it is in those circumstances, I think, because of a large permanent national population, that the PLO was able to effectively recruit out of the camps as though they were recruiting out of a whole society, a nation which they governed, and that is what they did. That is what happened.

That is what the Siblin report was about. We heard about it initially through journalists. I first encountered reports of the Siblin situation by reading the French press.

On the basis of a congressional requirement concerning the PLO, we requested a report from UNRWA about the charges concerning the organization and operation of the PLO in the Siblin camps. As you know, it was very extreme. They were, for example, making PLO military service a prerequisite for graduating from school, getting a school diploma, that sort of thing.

We waited a long, long time without their responding to our request for a report on the charges; then we withheld funds, as required by Congress, and we got a report.

On the basis of that report the State Department consulted with the Congress and with the UNRWA directors, and we arrived at a new understanding about the requirement for continuous monitoring of the camps to insure UNRWA's pledges, that they will not be used as recruiting ground for any sectarian or political organization, not as military recruiting grounds or for training in the fashion they were.

Nobody wants to deny free speech in a camp, I will say. We have now the agreement there will be much closer monitoring. The State Department has been in touch with UNRWA, is in regular contact with the UNRWA directors, and I think feels that it is in a position to monitor it adequately.

I may say that I expect that because there is a very large, highly developed bureaucracy with an ideology of its own, the monitoring of the UNRWA operation to achieve the purpose of Congress will continue to be a fairly sizable task and one which I think we will all want to keep quite a close watch over.

ONSITE INSPECTIONS

Senator **Kasten**. Ambassador Kirkpatrick, in other words, you are saying you, at this time, are not satisfied with the ability for onsite inspection or field monitoring? You are concerned that we still might not be able to have the ability on an unannounced basis, for example, to inspect or to monitor the activities in a camp?

Ambassador **Kirkpatrick**. I did not mean I wasn't satisfied with the current arrangements. I just mean to say that I think it will require continued vigilance.

Senator **Kasten**. We will work together with you and others on this problem. It is of interest to the Congress and of interest to the subcommittee.

Senator Specter.

Senator **Specter**. Thank you, Mr. Chairman.

Ambassador Kirkpatrick, in reading your testimony I see your concerns, perhaps even bordering on pessimism or despair, about what goes on in the United Nations as you recount the incidents or events there. It almost seems as if we have created an organization which does the United States an enormous disservice in the international arena because of its being a forum for propaganda.

Yet. I agree with your assertion in your statement that the U.N. is important, and we have to work with them and do the best we can.

I am reminded of the high school debates we used to have on "A World Federal Government." There has been a retreat of the world federalists who worked so long and hard over the years to have cessation of national sovereignty, that we were decrying for so long the demise of the League of Nations, that the U.N. was a great and glorious institution that came about in 1945 and the internationalists had tremendous hopes for the United Nations.

Yet today, as you characterize it in very blunt terms and really in very, very critical terms and obvious accurate terms, I do not question the accuracy, but when you recount the 113 to 4 vote on pages 6 and 7, and then we note that only Canada and Costa Rica voted with the United States and Israel and even our NATO allies abstained on, as you have characterized it, a clearcut issue that has no other resolution, then you say going on to page 7 that "Many are so desensitized to this kind of cynical manipulation," I am interpolating some of your words, cyncial manipulation occurs, and they don't even take the results seriously.

You go on to say that they vote as they do, knowing that it will lead to no result, and if they thought it would, most would vote differently.

I was amused with your tongue-in-cheek reference at page 4 which, with all respect, I may suggest opens the question whether the Congress of the United States operates on so pure a basis of absolute rationality as you seek to excuse perhaps the irrationality of the international organization or what we may do in the Congress.

But on a serious note when you come down to really what is going on, the kind of money we are putting into the U.N., and bearing 25 percent of the cost which is much more than our fair share on any rational basis, and yet we are determined to stay there because in the long, long run we cannot abandon the U.N., what can we do to improve the situation?

How do we tackle this issue to turn some of the 96 nonalined countries if not in our favor, at least to have some sense?

Ambassador **Kirkpatrick**. They have sense, Senator. They have a lot of sense. If I may say, I have come, since I have been at the United Nations, to have a great deal more sympathy with the problems of a lot of the countries, from Africa, the Middle East and Asia, and so forth, than I did before I got there, and a lot more respect for their good sense.

The fact is that it makes sense for them to behave as they do. That is really my point, that it makes sense for them to behave as they do, the reason being that they are dealing in an arena in which a lot of real hard ball politics is played, in which there are rewards and penalties for the positions nations take with regard to all kinds of issues.

But there are never any rewards or penalties for the positions they take with regard to U.S. positions.

Now, suppose you are a small, miserably poor Central American nation, let us say, or North African nation or Asian nation, suppose you are Bangladesh. You have on one side a bloc who is telling you that they feel very strongly about maintaining solidarity on the issue with them, and you know within that bloc there are four or five countries from whom you get significant economic aid.

On the other side there is a country from whom you also get significant economic aid who is saying, "We really wish you would not vote for this."

On one side somebody is saying, "We really wish you would," and on the other side somebody is saying, "You had better not do this or else."

It is only good sense to be influenced by the countries who are saying "you had better not do this or else." This is really the situation very frequently in the U.N. This is why I think we so frequently have so little influence because nobody thinks it is going to make any difference to them. "So what," they can say about the U.S. preference.

Senator **Specter**. If it makes sense for them under the situation you cite to be, as you put it, desensitized and engaged in, cynical manipulation and voting that way because they know it doesn't make any difference, if they thought it did make a difference, they would vote differently, if all that makes sense for them, aside from the long-range possibility that international organizations may someday work, what sense does it make for the United States to be there?

Ambassador **Kirkpatrick**. I think it makes sense for us to be there for two reasons.

First of all, there is the U.N. of the specialized agencies which does a great deal of very important humanitarian and scientific work. That is one.

Two, there is the other U.N., the political branch, the Secretary-General, Security Council, et cetera, and it does some valuable things and a lot of very unvaluable things. It is there.

We helped create it. We were probably the principal ancestors of it in fact. It would be a terrible shock if the United States were not to remain in the United Nations. There is virtually no one in the world, I think, who would not disapprove of such a decision on the U.S. part.

You know, our Declaration of Independence requires us to have a decent respect for the opinions of mankind; and a decent respect for the opinions of mankind requires, I think, trying to stay in the U.N. But it does not make any sense at all, in my view, for us to stay in the U.N., making the large contributions we do, and being so absolutely close to impotent as we are. That is what really doesn't make any sense.

Senator **Specter**. You are saying that world public opinion says we must stay in the U.N. so that world public opinion can knock us on one resolution after another?

Ambassador **Kirkpatrick**. I think it is our business to make sure they stop that. I think we have made progress on it. I think the progress we have made helps point the way toward further progress.

U.S. INTERESTS IN U.N. OF GLOBAL NATURE

Senator SPECTER. Let me take another subject up with you, Ambassador Kirkpatrick. That is a topic you raised on page 4 where you point out that the United States is not a member of any club, and that our interests are global rather than regional, and that when we examine an issue we must consider how it impacts on many other considerations.

This question and this concern goes to the economic line which is somewhat afield, but I would like to air this issue with you.

Going back to the open houses in Pennsylvania, the issue constantly arises about unfair foreign trade practices and even among those who believe in free trade and no protectionism, free trade requires fair trade and there are many instances, governmental subsidies, for example, when the international trade commission found that British steel was subsidized $250 a ton.

Yet there is no action by the administration to stop these kinds of unfair trade practices which directly result in unemployment of the steel worker in the western Pennsylvania steel mills and a growing concern that I hear is very much in line with what you are talking about on page 4, that the United States has global interests and there is concern that we are sacrificing industries like the steel industry on the altar of foreign policy because we have other fish to fry with the British, Benelux countries and NATO, and we have other fish to fry with the Japanese in the Pacific in trying to get them to expand their area of military assistance, not that we do it, but every time we come to one of these tough trade practices, and I am not talking about protectionism, I am talking about fair trade, that our global interests lead us to sacrifice industrial interest and a tremendous number of American jobs.

Ambassador KIRKPATRICK. Senator Specter, I would like to say that I don't believe that American economic interests or American interests generally should be sacrificed on the altar of foreign policy. I do not believe that we should sacrifice American interests on the altar of global concerns.

I do believe that sometimes our short-range concerns are not identical with our long-range interests. I should not apply that to the steel industry, if I may say so. I do not apply that to the steel industry. I think it is very important to this country, a very important aspect of our national interest that the United States have a strong, vigorous, thriving steel industry.

I should like to be very clear about that.

Now, I think that the administration is communicating to our trading partners that we are determined, in fact, to protect basic U.S. economic interests at the same time that we cooperate with them in protection of common interests in the world.

I think that is an interesting analogy you have drawn between trade policy and the situation in the U.N. I believe those two issues have something in common.

In both cases we are challenged by the need perhaps to make clearer than we have made in a long, long time that we do intend to protect U.S. national interests, economic, and political, at the same time that we are willing to join with friends and others in the pursuit of some common goals.

I think that we do have to find new ways of being clearer perhaps than we have been, in my memory, about this.

Senator SPECTER. Ambassador Kirkpatrick, let me join with Chairman Kasten in thanking you for coming today and in sharing his view about the outstanding job you are doing.

It is unfortunate that in a day when there is evaluation of the jobs being done by the administration there is so much more attention which is paid to those who are not faring so well in the public media than those who are faring so well.

I think you are doing a splendid job. I very much appreciate the dialog here.

Ambassador KIRKPATRICK. Thank you.

HUMAN RIGHTS TREATMENT IN U.N.

Senator KASTEN. Ambassador Kirkpatrick, one of the things that has impressed me more than any other is the whole question of human rights and the way it is treated at the United Nations. The consideration of human rights questions in the U.N. is viewed by, I think, a growing number of us as just a flat out double standard.

In fact, many view the U.S. Government policy on human rights as a double standard, that we tend to ignore some of the larger violators, particularly the Soviet Union.

What is your view, both of the human rights matters found in the U.N. and the direction in which that the whole human rights debate seems to be going?

Ambassador KIRKPATRICK. Senator Kasten, we have been very deeply concerned and outraged, I may say, by the extent to which consideration of human rights in the U.N. is really falsified, utterly falsified, by the double standard regularly applied.

It is so extreme one looks for a different word to describe it than double standard. The fact is that the biggest violators of all invariably escape any kind of notice in U.N. human rights bodies, either the Third Committee of the U.N. General Assembly which you participated in this year, or the Human Rights Commission which is meeting just now in Geneva.

The fact is, to take a few examples, either Vietnam or the Soviets in Afghanistan are the largest human rights violators in the world. Surely many more thousands of political prisoners are living under much harsher conditions there than anywhere else. Neither has become the object of any human rights action whatsoever.

When Idi Amin was slaughtering Asians at the rate, for a period, of 8,000 a week I think, and Africans, too, Uganda never became the object of action in any U.N. body.

During the Pol Pot genocide in which 3 million Cambodians died, Cambodia never became the object of U.N. human rights action.

So it goes. In the Human Rights Commission in Geneva Soviet client states or the Soviet Union have only once been the object of a human rights inquiry.

Senator KASTEN. Only once?

Ambassador KIRKPATRICK. Only once. That was Poland. It was last year. We undertook it with very great effort. The State Department worked very hard on it, we in the U.N. worked very hard on it, our delegation in Geneva worked very hard on it with our allies there and did secure a resolution which called for the appointment of a representative of the Secretary-General to look into the question of repression in Poland.

That resolution which was relatively weak constituted a real landmark in Human Rights Commission activities. It turned out unfortunately also to be disappointing. The Secretary-General's representative was not appointed until December. The resolution was passed in March, confirmed by the Economic and Social Council in May, but the Secretary-General's representative was not appointed until the end of the second week in December and the resolution authorized the inquiry for only that calendar year.

So no time remained virtually. Now, meanwhile, the explanation for that was that the Secretary-General was trying to get the cooperation of the Government of Poland and he had submitted some names, but the Government of Poland was very slow in responding. The Government of Poland finally made very clear that they wouldn't cooperate with any representative proposed by him.

The report of that representative has just been issued, and it is really quite extraordinary because the basic point is that since he wasn't admitted into the country, he can't really reach any conclusions with any validity.

Now, what is most extraordinary about that is the parallel action on Chile, let us say, where the Government also refuses as of now cooperation with a U.N. Secretary-General's representative. But no effort is made to secure the cooperation of the Government in the appointment of a representative.

It went on for months and months and months as in the case of Poland and, of course, very harsh reports on Chile regularly are presented by the representative who is not admitted into the country.

I may say, we say again and again that we are prepared to cooperate with our colleagues in the U.N. on any evenhanded serious human rights program which they are willing to propose. There are so many examples.

Last year in the General Assembly Third Committee there were only three violations resolutions passed. They dealt with human rights violations in Guatemala, El Salvador and Chile.

There were no other human rights resolutions passed. We proposed one and got no place on it—on, let us say, Vietnam or Cuba, just to choose some countries at random; Ethiopia is another good one.

GUATEMALA CASE

The Guatemala case was interesting because the Secretary-General appointed a representative to inquire into charges of human rights abuses in Guatemala.

The Government of Guatemala announced it was prepared to fully cooperate, to admit the representative and cooperate with the inquiry, but the Third Committee did not wait until a report was in in order to pass a resolution that very harshly condemned the Government.

We think that the double standard in human rights practices in the U.N. makes a kind of mockery of all of them, because of the

U.N.'s failure to take seriously human rights violations of any African country or any Arab country, Islamic country, or any Asian country or any Soviet bloc country. It makes a mockery of those that it does take seriously.

You may wonder why there are not any actions against African countries or Islamic countries or Soviet bloc countries. The answer is that the blocs in the U.N. control human rights deliberations just as effectively as they do all other political decisions, and they serve as a protective league, they protect each other against becoming a target of a human rights inquiry.

So, it is extremely unlikely that any African state would ever become the object of a human rights abuse inquiry inside the United Nations just as it is extremely unlikely that any Islamic state ever would, although Israel is regularly a target of human rights allegations.

This explains the concern, for example, over the tragic massacre, at Shatila and Sabra on the one hand and the total inaction of the U.N. when the Syrians destroyed an allegedly dissident population in its own country just a few months earlier.

So it goes. It makes a mockery of the human rights procedures in the U.N.

Senator **Kasten**. We have a number of questions that we are going to submit for the record having to do with dollar amounts and contributions and the inability or the seemingly inability right now to figure out exactly how much money we really are spending in these various accounts.

BUDGETING PROGRAMS IN U.N.

I wonder if you might make one brief comment on the necessity for developing some kind of budgeting program in the U.N. on different kinds of programs so that when we vote for a program that is going to require funding that we have some idea of what it is going to cost and what our contribution is going to be. Evidently there is a kind of open-ended process right now whereby we are really not sure how much money we are spending, or what we are spending at all.

I wonder if you could comment on this very important problem of trying to establish a framework or a budget in the process of establishing or continuing a particular program.

Ambassador **Kirkpatrick**. Yes, Senator Kasten, that is a very important problem.

As you know, there is a budgetary process which establishes a budget for the U.N. There is a committee called the ACABQ, which is made up of experts who painstakingly work out a budget.

Now, in addition to that, however, new programs, additional programs are adopted by resolution in the course of the General Assembly and in the various committees of the General Assembly; and whatever expenses are entailed in those programs, are simply added on to whatever budget has been already agreed upon.

So, the budget grows by majority vote throughout the General Assembly. There are a lot of problems with it.

One problem is that the countries who pay the bills don't have the votes and the countries who have the votes don't pay the bills.

There is no reason for fiscal restraint on the part of the majority of the nations in the United Nations because they don't pay the bills, so to speak. They don't have to pick up the bills.

We have taken several initiatives in the effort to try to bring this budgetary process under control. I may say my predecessor there was working on this problem, too. We have been working on it for a long time. We have made a little progress.

One, we have achieved adoption of a policy which requires that for each resolution considered in each of the major committees or the GA, a statement of financial implications would be developed; so there would be an estimate at least of what it would cost to implement that resolution, were it adopted.

Unfortunately, while it is useful in the abstract, since nations that comprise the majority by and large don't pay most of the bills, they don't have any incentive to be much influenced by economy concerns.

Last year, as you know, Senator Kasten, we launched a new offensive aimed at budgetary control. We consulted with the Soviets, by the way, and if I may say, I take an extreme "detentiste" position on U.N. fiscal affairs; the Soviets are the most reliable partners that we have in regard to our effort to bring the U.N. budget under some kind of control. That is because they also pay a significant portion of the bills, of course.

We had consultations with the Soviet Union and the British and the French, with Japan, and with some of our other European friends who are major donors. We made various kinds of appeals. Then we adopted a policy—I would like to say we all adopted this policy, although no other nation adopting it has agreed to apply it as consistently as we have.

We decided that for every resolution proposed which involved increased cost, in addition to the fiscal implications statement we would like to have the inclusion of an amendment which provided that the cost of that resolution could be and would be borne out of resources available within the existing program budget, which is to say the budget arrived at by the ACABQ.

We proposed such an amendment in every arena. And unless there was an overriding humanitarian or national interest concern, and I really mean overriding, we voted no on the resolution if it did not include an amendment that the costs would be met within the program budget.

We feel that we attracted a great deal of attention to the budgetary issue last year which was our, I suppose you could say, principal concern, our principal objective. There are a lot of committees now meeting all over the place on these questions. There are a lot more questions of sunset legislation and practices for the U.N. than there have ever been.

We certainly didn't solve the problem. We did succeed in holding costs down. We think that our initiative was responsible for a number of quite real savings; and also I point out to you that, by making it an issue, we helped encourage other nations to join us on this.

One good measure of the dissatisfaction with U.N. budgetary practices is the fact that last year, of the 10 top donors to the U.N., not one supported the budget. They either abstained or voted no.

Those 10 top donors collectively contribute some 76 percent of the total U.N. budget.

Of the 16 top contributors, 14 failed to vote for the budget, either abstaining or voting no, and those 14 comprise, with their contributions, some 85 percent of the total U.N. budget.

That tells you something about the dimensions of the dissatisfaction and a little about the preliminary measures we have taken to try to come to grips with it.

Senator **KASTEN**. Ambassador Kirkpatrick, we look forward to working with you on this problem.

If I remember the numbers properly, you can get a majority, you can get, I think, 80 votes in the General Assembly and still not reach 1 percent of the assessed budget.

Ambassador **KIRKPATRICK**. That is right.

Senator **KASTEN**. There are 157 countries, so that means you can spend money with votes of 1 percent. It is 146 or 147 countries you can add up if you pick the countries and still not reach our contributions.

Ambassador **KIRKPATRICK**. I think it is 146.

Senator **KASTEN**. We have a series of questions that we intend to submit for the record. The subcommittee intends to explore some of these questions. Obviously it is a critical situation for the United Nations if, as you pointed out, the large donors are voting no or abstaining from voting on the basic budget of the organization.

That is going to be sending them a signal. It is no secret that the Congress of the United States, with our concern overall on foreign aid and particularly a concern about the United Nations, is going to be looking at this question with more and more detail and scrutiny.

I want to thank you for spending time with us this morning. Thank you for your testimony. Thank you for your service to our country and to this administration.

PREPARED STATEMENT

The committee has received the prepared statement of Gregory J. Newell, the Assistant Secretary of State for International Organization Affairs. It will be inserted in the record at this point.

[The statement follows:]

PREPARED STATEMENT OF GREGORY J. NEWELL
ASSISTANT SECRETARY OF STATE
INTERNATIONAL ORGANIZATION AFFAIRS

MR. CHAIRMAN, I APPRECIATE THE OPPORTUNITY TO PRESENT THE PRESIDENT'S FY 1984 REQUEST FOR CONTRIBUTIONS TO CERTAIN VOLUNTARILY FUNDED ORGANIZATIONS AND PROGRAMS OF THE UNITED NATIONS AND THE ORGANIZATION OF AMERICAN STATES. I WISH FIRST TO PLACE THE REQUEST IN CONTEXT BY DESCRIBING MY BASIC APPROACH TO THE UN AND TO THE BUREAU OF INTERNATIONAL ORGANIZATION AFFAIRS.

LET ME ADDRESS FIRST THE RELATIONSHIP BETWEEN THE IO BUREAU AND OUR MISSION IN NEW YORK. MANY BELIEVE THE CABINET STATUS OF THE U.S. REPRESENTATIVE TO THE UNITED NATIONS MAKES THE ASSISTANT SECRETARY'S JOB IMPOSSIBLE. I BELIEVE THAT AMBASSADOR KIRKPATRICK AND I TOGETHER HAVE LARGELY OVERCOME THE INHERENT DIFFICULTIES. INEVITABLY, OUR DIFFERENT PERSPECTIVES HAVE SOMETIMES RESULTED IN DIFFERENT OPINIONS. WE HAVE FELT NO NEED, HOWEVER, TO BELABOR SUCH OCCASIONAL DIFFERENCES; OUR COMMON RESPECT FOR ONE ANOTHER AND OUR COMMON DEDICATION TO SERVING THE PRESIDENT HAVE KEPT OUR ENERGIES FOCUSED ON THE PROBLEMS AT HAND.

ONLY DAYS AFTER I TOOK OFFICE LAST JUNE 4, I ANNOUNCED FIVE POLICY PRIORITIES TO GUIDE THE WORK OF THE BUREAU. WE HAVE INCORPORATED THESE PRIORITIES INTO OUR DAY-BY-DAY MANAGEMENT OF MULTILATERAL ISSUES, AND WE HAVE USED THEM TO MAINTAIN A STEADY FOCUS ON THOSE MATTERS OF GREATEST IMPORTANCE TO THE UNITED

STATES.

THE FIRST PRIORITY IS REASSERTION OF AMERICAN LEADERSHIP IN INTERNATIONAL ORGANIZATIONS. WHEN WE SPEAK OUT CLEARLY, NATIONS LISTEN. WHEN WE PRESENT CONSTRUCTIVE PROPOSALS, THEY CAN WIN SUPPORT. IN THE LAST GENERAL ASSEMBLY, FOR EXAMPLE, WE TURNED BACK CUBA'S EFFORT TO PUT PUERTO RICO ON THE ASSEMBLY'S AGENDA, AND WE WERE INSTRUMENTAL IN DEFEATING AN ATTEMPT TO EXCLUDE ISRAEL. BOTH WERE TOUGH SITUATIONS IN WHICH WE TOOK CHARGE AND PREVAILED.

SECOND, BUDGETARY RESPONSIBILITY. THE UNITED STATES IS DEDICATED TO SUPPORTING INTERNATIONAL ORGANIZATIONS WHOSE ASSESSED BUDGETS REFLECT CONSERVATIVE FISCAL POLICIES AND ECONOMIC REALITY. THE PRESIDENT'S OWN BUDGET POLICY IS ZERO NET PROGRAM GROWTH AND SIGNIFICANT ABSORPTION OF NON-DISCRETIONARY COST INCREASES. IN VIEW OF THE RESTRAINT BEING IMPOSED ON THE DOMESTIC PROGRAMS OF THE UNITED STATES AND OTHER MAJOR CONTRIBUTORS, INTERNATIONAL ORGANIZATIONS SIMPLY CANNOT BE IMMUNE FROM THE SAME ECONOMIC CONSTRAINTS. ALTHOUGH THE BATTLE IS FAR FROM WON, WE ARE SEEING ENCOURAGING SIGNS - LIKE THE DEFEAT OF AN UNWARRANTED PAY RAISE FOR UN EMPLOYEES - THAT OUR INSISTENCE ON RESTRICTING BUDGET GROWTH IS STARTING TO GAIN SUPPORT.

THIRD, STRENGTHENED U.S. INFLUENCE IN INTERNATIONAL CONFERENCES. LEANER DELEGATIONS WILL NOT ONLY SAVE MONEY BUT ALSO ASSURE MORE DISCIPLINED DELEGATIONS. OUR GOAL HERE IS TO REDUCE BY 30 PERCENT THE NUMBER OF GOVERNMENT DELEGATE TRAVELLERS COMPARED TO FY 1980. OVER THE LAST EIGHT MONTHS WE ACHIEVED A REDUCTION OF MORE THAN 26 PERCENT.

Fourth, more U.S. nationals serving in international organizations. We seek both to identify important policy-making vacancies for Americans and to ensure that Americans occupy positions at junior levels and are given opportunitites to advance. We want no unfair advantage but only that the number of positions held by Americans falls within the established ranges. We feel we are making progress in some key areas.

And fifth, an increased role for the private sector in the programs and activities of the international organizations. We seek to encourage UN programs which draw upon private sector expertise and funding, to solicit private sector views on UN issues, and to combat negative attitudes toward the private sector within the UN system and among member states. Concretely, we have, for example, devoted greater resources to UNESCO's International Program for the Development of Communications to draw the private sector into UNESCO activities, and we have gotten a number of American communications companies to train developing country officials in the use of U.S. communications technology.

To implement these priorities, I launched on July 15 a systematic review of the international organizations and programs for which my Bureau has some responsibility. In consultation with other Bureaus of the Department of State and other Executive Agencies, we are assessing the effectiveness of the international organizations and weighing the benefits and costs of our participation. Our goal is to ensure that these organizations promote both American and world interests.

Finally, let me indicate what I see to be the most serious problems confronting us as we seek to serve our interests through participation in international organizations. First, the introduction of extraneous political issues into the deliberations of the UN technical agencies' meaningful and necessary work. The attacks on Israel's right to participate in different international organizations is just one example. Both Secretary Shultz and the President himself have deplored this disruptive tendency. The second problem is the lack of financial discipline in international organizations. Throughout my extensive consultations with Secretariat officials and representatiaves of some 58 member governments, I have stressed the need for fiscal restraint. Our success in dealing with both these problems may well determine the future of international organizations.

I appreciate this opportunity to describe for you the approach we are taking in the Bureau. In sum, my attitude is neither cynical nor overly optimistic. The Bureau's overall objective -- and that of this Administration -- is to make the UN and its agencies work more effectively. We have been critical, but for a constructive purpose. In and through the United Nations we will continue to uphold American values, express American views and pursue American interests, and we can and must do this within existing budgetary constraints.

The President's request of $190 million for the International Organizations and Programs account is $16.7 million above the FY 1983 request level. This increase reflects a careful balance between the President's goals of budgetary stringency required for rebuilding our national

ECONOMY AND HIS DETERMINATION TO MAINTAIN THE LONG-ESTABLISHED LEADERSHIP ROLE OF THE UNITED STATES IN THE INTERNATIONAL ORGANIZATIONS CONCERNED. U.S. LEADERSHIP IS MOST IMPORTANT IN THE TWO MAJOR ORGANIZATIONS FUNDED FROM THIS ACCOUNT -- THE UN DEVELOPMENT PROGRAM (UNDP) AND THE UN CHILDREN'S FUND (UNICEF). A THIRD SIGNIFICANT CONTRIBUTION, TO THE INTERNATIONAL ATOMIC ENERGY AGENCY (IAEA), IS ALSO VITAL FOR BALANCED SAFEGUARDS SUPPORT AND TECHNICAL ASSISTANCE PROGRAMS DESIGNED TO ASSURE CONTINUED WIDESPREAD SUPPORT FOR U.S. NON-PROLIFERATION OBJECTIVES. THE FOURTH MAJOR CONTRIBUTION IN THE ACCOUNT PROVIDES FOR PROMOTING SOCIAL AND POLITICAL STABILITY WITHIN THE FRAMEWORK OF BASIC U.S. INTERESTS IN LATIN AMERICA AND CARIBBEAN NATIONS THROUGH THE DEVELOPMENT ASSISTANCE PROGRAMS OF THE ORGANIZATION OF AMERICAN STATES.

ALTHOUGH UNDP, UNICEF, IAEA, AND THE OAS ARE THE PRIMARY ORGANIZATIONS IN THIS ACCOUNT, THE TOTAL LEVEL REQUESTED IS CALCULATED TO DEMONSTRATE CONTINUED U.S. COMMITMENT IN THESE DIFFICULT TIMES TO ALL OF THE PROGRAMS INVOLVED, TO ASSURE FOR THIS COUNTRY A MAJOR ROLE IN SHAPING THE DIRECTION OF THEIR ACTIVITIES, AND TO RESTRAIN PRESSURE FOR INCREASED TECHNICAL ASSISTANCE ALLOCATIONS IN THE ASSESSED BUDGETS OF OTHER UN AGENCIES WHERE WE HAVE LESS POLITICAL AND BUDGETARY INFLUENCE.

UNLIKE THE ORGANIZATIONS TO WHICH WE ARE LEGALLY OBLIGATED BY TREATY TO MAKE ASSESSED CONTRIBUTIONS, UNDP, UNICEF, AND THE OTHER VOLUNTARILY FUNDED DEVELOPMENT AND HUMANITARIAN ASSISTANCE ORGANIZATIONS ARE KEENLY AWARE THAT OUR DEGREE OF PARTICIPATION IS DEPENDENT UPON OUR PERCEPTION OF THEIR EFFECTIVENESS AND THEIR RESPONSIVENESS TO OUR INTERESTS. THEREFORE, HISTORICALLY, THEY HAVE TENDED TO BE

"SELF-REGULATING" AND BECAUSE OF OUR USUALLY LARGE CONTRIBUTION, THEY REMAIN VERY RESPONSIVE TO OUR EFFORTS TO PLAY A STRONG LEADERSHIP ROLE. DISRUPTIVE ISSUES LIKE ISRAELI PARTICIPATION, APARTHEID, AND INVOLUNTARY RESOURCE TRANSFERS TO THE DEVELOPING WORLD -- ALL TOO COMMON IN SOME UN ORGANS -- RARELY INTERFERE WITH THE HUMANITARIAN ASSISTANCE PROGRAMS OF UNICEF, THE WELL-MANAGED DEVELOPMENT PROJECTS OF UNDP, OR THE VITAL METEOROLOGICAL DATA GATHERED BY WMO'S VOLUNTARY COOPERATION PROGRAM.

BESIDES BEING WELL MANAGED AND RESPONSIVE, THE AGENCIES OF THIS ACCOUNT ADVANCE OUR FOREIGN POLICY OBJECTIVES IN THE FOLLOWING WAYS:

--THEY CONTRIBUTE TO ECONOMIC GROWTH AND STABILITY IN DEVELOPING COUNTRIES BY HELPING THE POORER NATIONS PLAN AND IMPLEMENT DEVELOPMENT PROGRAMS THAT IMPROVE THE WELL-BEING OF THEIR CITIZENRY. IN SO DOING, THEY ENHANCE WORLD SECURITY BY CHIPPING AWAY AT SOURCES OF DISCONTENT.

--OUR PARTICIPATION IN UN PROGRAMS HELPS TO PROMOTE THE INTEGRATION OF DEVELOPING WORLD ECONOMIES INTO THE WESTERN ECONOMIC SYSTEM, TO ENSURE THAT THE GROWTH AND EXPANSION OF IMPORTANT DEVELOPING COUNTRIES TAKES PLACE IN CLOSE CONTACT WITH THE WEST.

--THIS WESTERN INFLUENCE FOSTERS AN EMPHASIS ON SELF-RELIANCE, THE ULTIMATE REQUIREMENT FOR EFFECTIVE DEVELOPMENT. THE FACT THAT RECIPIENT GOVERNMENTS HELP DIRECT UN PROJECTS AND THUS MUST SHARE ACCOUNTABILITY FOR THE SUCCESS OR FAILURE OF UN ACTIVITIES INCREASES THEIR

SELF-RELIANCE TO A DEGREE OFTEN LACKING IN OTHER DEVELOPMENT ASSISTANCE EFFORTS.

--U.S. CONTRIBUTIONS TO AGENCIES SUCH AS UNICEF DEMONSTRATE AMERICAN HUMANITARIAN CONCERN AROUND THE GLOBE.

--FINALLY, THESE UN AND OAS PROGRAMS COMPLEMENT OUR BILATERAL AID EFFORTS AND ALLOW US TO EXTEND A MEASURE OF OUR INFLUENCE TO AREAS TOO SENSITIVE FOR, OR OUTSIDE THE REACH OF, U.S. BILATERAL AID.

MR. CHAIRMAN, THE REMAINDER OF MY STATEMENT BRIEFLY REVIEWS THE INDIVIDUAL ITEMS IN THE ACCOUNT.

UNITED NATIONS DEVELOPMENT PROGRAM (UNDP)

THE PRESIDENT IS REQUESTING $120 MILLION AS OUR CONTRIBUTION TO UNDP. THIS ORGANIZATION, WITH ITS EXTENSIVE NETWORK OF 114 DEVELOPING COUNTRY FIELD OFFICES, REMAINS THE MAIN CHANNEL FOR TECHNICAL COOPERATION IN THE UN SYSTEM. ADMINISTERING PROJECTS AMOUNTING TO OVER $600 MILLION A YEAR, UNDP IS RESPONSIBLE FOR PROGRAM DELIVERY IN MORE FIELDS IN MORE DEVELOPING COUNTRIES AND TERRITORIES (152) THAN ANY OTHER DEVELOPMENT ASSISTANCE ORGANIZATION IN THE WORLD. UNDP PROJECTS COVER A BROAD RANGE INCLUDING EXPANSION OF INDUSTRIAL AND COMMERCIAL SECTORS, INCREASING AGRICULTURAL PRODUCTION, AND THE ENHANCEMENT OF AID ABSORPTION CAPACITY THROUGH THE TRAINING OF LOCAL PEOPLE.

SPECIFICALLY THE $120 MILLION IS NEEDED TO:

--MAINTAIN THE COMPREHENSIVE SYSTEM OF UNDP FIELD REPRESENTATIVES. THE UNDP'S RESIDENT REPRESENTATIVES ARE THE PRINCIPAL UN SPOKESMEN IN NEARLY EVERY DEVELOPING COUNTRY. THEY PERFORM FIELD FUNCTIONS FOR NEARLY ALL UN AGENCIES AND THE SECRETARIAT, ACHIEVING ECONOMIES OF SCALE AND IMPROVED EFFICIENCY FOR THE UN SYSTEM AS A WHOLE THROUGH THEIR COORDINATING AND CATALYTIC ACTIVITIES.

--STAVE OFF THE GROWTH OF TECHNICAL ASSISTANCE IN THE REGULAR BUDGETS OF THE UN SPECIALIZED AGENCIES. NOW IN THE SECOND YEAR OF THE THIRD PROGRAM CYCLE, UNDP, DUE TO THE WORLD-WIDE ECONOMIC SITUATION, FINDS ITSELF WITH DONOR RESOURCES PERMITTING PROGRAMMING AT ONLY 55% OF THE LEVEL ORIGINALLY PLANNED. WHILE THE ORIGINAL GROWTH RATE MAY HAVE BEEN UNREALISTICALLY HIGH, AGENCY HEADS AND DEVELOPING NATIONS HAVE SEIZED UPON THIS SITUATION OF UNFULFILLED EXPECTATIONS TO URGE INCREASED TECHNICAL ASSISTANCE IN OTHER AGENCIES THROUGH THE REGULAR BUDGET -- A MOVE WE OPPOSE FOR BOTH POLICY AND BUDGETARY REASONS. A SUFFICIENT U.S. VOLUNTARY CONTRIBUTION CAN BE HELPFUL IN DEFLECTING SUCH INCREASES IN OTHER AGENCIES.

--MAINTAIN TOP LEVEL U.S. MANAGEMENT IN THE ORGANIZATION. THE TERM OF BRAD MORSE, THE CURRENT UNDP ADMINISTRATOR, EXPIRES IN 1983 AND WE DESIRE HIS REAPPOINTMENT OR HIS REPLACEMENT BY ANOTHER AMERICAN.

--CONTINUE A COORDINATED APPROACH TO UN SYSTEM DEVELOPMENT VIA ONE CENTRAL AGENCY.

UNITED NATIONS CHILDREN'S FUND (UNICEF)

AN FY 1984 REQUEST OF $27 MILLION FOR UNICEF IS NECESSARY TO RESPOND TO THE NEEDS OF CHILDREN AND MOTHERS IN DEVELOPING COUNTRIES. UNICEF IS UNIQUE IN PROVIDING LONG-TERM HUMANITARIAN DEVELOPMENT ASSISTANCE FOR CHILDREN, MAXIMIZING POPULAR PARTICIPATION AND SELF-HELP EFFORTS AT THE VILLAGE LEVEL. IT DOES THIS IN COOPERATION WITH THE HOST COUNTRY GOVERNMENT AND OFTEN WITH BILATERAL AND OTHER MULTILATERAL ORGANIZATIONS. UNICEF PROVIDES TRAINING AT THE LOCAL LEVEL, SUPPLIES AND EQUIPMENT FOR PROJECTS, AND ADVOCACY FOR POOR CHILDREN ON AN INTERNATIONAL LEVEL.

OUR REQUESTED CONTRIBUTION IS PARTICULARLY IMPORTANT IN FY 1984 TO CONTINUE U.S. LEADERSHIP OF THE ORGANIZATION AND TO ENABLE IT TO APPLY RECENT DEVELOPMENTS IN MEDICAL SCIENCE TO REDUCE ACUTE MALNUTRITION AND DISEASE. THESE NEW MEDICAL TECHNOLOGIES INCLUDE LOW-COST VACCINES AND ORAL REHYDRATION THERAPY FOR DIARRHEA. OTHER ELEMENTS OF THE UNICEF APPROACH INCLUDE THE USE OF INFANT GROWTH CHARTS TO DETECT MALNUTRITION, THE PROMOTION OF BREAST FEEDING, AND THE SPACING OF CHILDREN. THIS APPROACH IS CONSISTENT WITH AND REINFORCES OUR BILATERAL EFFORTS IN THESE AREAS.

INTERNATIONAL ATOMIC ENERGY AGENCY (IAEA)

CONCERN OVER THE DANGERS TO WORLD PEACE OF FURTHER PROLIFERATION OF NUCLEAR WEAPONS HAS INTENSIFIED THE FOCUS ON IAEA'S VITAL SAFEGUARDS, WHICH PLAY A CENTRAL ROLE IN THE NON-PROLIFERATION TREATY. THE UNITED STATES WISHES TO STRENGTHEN THE AGENCY'S ROLE IN THE APPLICATION OF

INTERNATIONAL SAFEGUARDS TO PREVENT THE DIVERSION OF NUCLEAR MATERIALS FROM PEACEFUL TO MILITARY PURPOSES. THIS EMPHASIS IS NOT FULLY SHARED BY THE DEVELOPING COUNTRIES, WHOSE PRIMARY INTEREST IS THE IAEA'S TECHNICAL ASSISTANCE PROGRAM. OUR PROPOSED $18.5 MILLION VOLUNTARY CONTRIBUTION IS DESIGNED TO HELP FUND BOTH PROGRAMS, THUS MAINTAINING AN OVERALL BALANCE IN ORDER TO SUSTAIN THE DEVELOPING COUNTRIES' SUPPORT OF THE SAFEGUARDS ACTIVITIES. THE PRESIDENT'S REQUEST FOR A $4.5 MILLION FY 1983 SUPPLEMENTAL APPROPRIATION FOR IAEA ALSO IS REQUIRED TO MAINTAIN THIS OVERALL BALANCE.

OAS DEVELOPMENT ASSISTANCE PROGRAM (OAS)

THE OAS IS A VALUABLE INSTITUTION THROUGH WHICH WE PROMOTE IMPORTANT NATIONAL INTERESTS IN THIS HEMISPHERE; IN PARTICULAR, POLITICAL SOLIDARITY AND COLLABORATION, THE ENHANCEMENT OF HUMAN RIGHTS, AND CONTAINMENT OF CONFLICT THROUGH PEACEKEEPING. ALTHOUGH THE OTHER MEMBER COUNTRIES ARE CONCERNED WITH THE SAME ISSUES, THEY TEND TO BE PREOCCUPIED WITH THEIR OWN ECONOMIC DEVELOPMENT. CONSEQUENTLY THEY TEND TO ASSESS OUR COMMITMENT TO INTER-AMERICAN SOLIDARITY IN LARGE PART BY THE LEVEL OF OUR SUPPORT FOR OAS ECONOMIC DEVELOPMENT PROGRAMS.

WE BELIEVE THAT THE REQUESTED $15.5 MILLION IS AN ACCEPTABLE CONTRIBUTION TO LATIN AMERICAN DEVELOPMENT NEEDS AND WILL BE SEEN AS A TESTIMONY TO U.S. LEADERSHIP. THESE MONIES SHOULD ENSURE THAT THE U.S. WILL CONTINUE TO INFLUENCE THE USE OF OAS FUNDS AND PRESERVE OUR LEADERSHIP IN THE DEVELOPMENT FIELD THROUGHOUT THE HEMISPHERE. IT IS WORTHY OF NOTE THAT THE MORE DEVELOPED COUNTRIES IN THE REGION HAVE BEGUN TO ASSUME

MORE OF THE DEVELOPMENT BURDEN AND ARE STRENGTHENING THEREBY COOPERATION AMONG THE MEMBER COUNTRIES.

UNITED NATIONS ENVIRONMENT PROGRAM (UNEP)

THE UNITED STATES WAS AN INITIAL SUPPORTER OF UNEP'S CREATION IN 1972 AND CONTRIBUTED SOME 30 PERCENT OF ITS TOTAL RESOURCES FOR THE 1978-1982 PERIOD. MOST UNEP PROGRAMS ARE DEVOTED TO GLOBAL ENVIRONMENTAL PROBLEMS IN WHICH THE UNITED STATES HAS FUNDAMENTAL INTERESTS BUT WHICH BY THEIR NATURE REQUIRE A MULTILATERAL APPROACH. THESE PROBLEMS INCLUDE BUILD-UP OF TOXIC SUBSTANCES IN RIVERS AND OCEANS, ACCUMULATION OF CARBON DIOXIDE AND HYDROCARBONS IN THE ATMOSPHERE, POLLUTION OF AIR AND WATER, AND DEFORESTATION. UNEP IS AN IMPORTANT MECHANISM FOR STIMULATING AND ORCHESTRATING ACTION ON SUCH PROBLEMS.

A $3 MILLION U.S. CONTRIBUTION TO THIS PROGRAM WILL ALLOW DEVELOPING COUNTRIES TO TAKE ADVANTAGE OF UNEP'S EFFORTS TO BUILD ENVIRONMENTAL SAFEGUARDS INTO NEW DEVELOPMENT PROJECTS AND PROMOTE RATIONAL RESOURCE MANAGEMENT. IN THE LONG RUN THE UNITED STATES WILL BE A PRIME BENEFICIARY OF THE SUPPORT WE GIVE UNEP TODAY.

WORLD METEOROLOGICAL ORGANIZATION/VOLUNTARY COOPERATION PROGRAM (WMO/VCP)

THE GLOBAL OPERATION OF THE WORLD WEATHER WATCH OF THE WMO/VCP IS OF DIRECT BENEFIT TO THE UNITED STATES. BEFORE ITS ESTABLISHMENT, ADEQUATE WEATHER DATA HAD BEEN UNAVAILABLE FROM OVER 80 PERCENT OF THE EARTH'S SURFACE -- PRIMARILY THE OCEANS

AND THE DEVELOPING COUNTRIES. DATA FROM THESE AREAS ARE BECOMING AVAILABLE AS A RESULT OF THE WMO/VCP EFFORTS AND ARE BEING USED TO HELP IMPROVE FORECASTS OF SHORT-RANGE PRECIPITATION AND TEMPERATURE AS WELL AS LONG-TERM WEATHER PATTERNS. THE INFORMATION IS USED BY THE GENERAL PUBLIC, CIVILIAN INDUSTRIES, AND OUR DEFENSE ESTABLISHMENT. THE DATA FROM THIS PROGRAM ARE ALSO USED FOR RESEARCH PURPOSES TO IMPROVE THE OPERATIONAL SYSTEM AND TO HELP PREDICT CLIMATE FLUCTUATIONS.

THE WMO/VCP SUPPORTS THE PARTICIPATION OF DEVELOPING COUNTRIES IN THE PROGRAM BY PROVIDING AND INSTALLING EQUIPMENT AND TRAINING PERSONNEL TO OPERATE IT. THE REQUEST OF $2.3 MILLION WILL SUSTAIN THIS WORK.

UN CAPITAL DEVELOPMENT FUND (UNCDF)

ESTABLISHED TO PROMOTE SMALL-SCALE LOCAL INDUSTRIES AND PRODUCTION WITHIN DEVELOPING COUNTRIES BY APPLYING THE MOST APPROPRIATE TECHNOLOGY, UNCDF PROVIDES FINANCING FOR THOSE PROJECTS CONSIDERED TOO SMALL FOR EXTERNAL PRIVATE OR MULTILATERAL BANK ATTENTION. UNCDF PROJECTS ARE RELATIVELY SMALL IN ORDER TO ENLIST THE WIDEST LOCAL PARTICIPATION AND MAKE MAXIMUM USE OF LOCAL RESOURCES, GIVING BENEFICIARIES INCREASED MOTIVATION AND EARLY RESULTS. UNCDF WELCOMES THE COOPERATION OF PRIVATE ENTERPRISE IN THE DEVELOPMENT PROCESS AS EXEMPLIFIED BY LIBBY'S INVOLVEMENT WITH A UNCDF-FINANCED SMALL-HOLDER ASPARAGUS PROJECT IN LESOTHO. WE ARE REQUESTING $2.0 MILLION AS THE U.S. CONTRIBUTION TO UNCDF IN FY 1984.

UN EDUCATION AND TRAINING PROGRAM FOR SOUTHERN AFRICA (UNETPSA)

WE ARE REQUESTING $1.0 MILLION FOR THIS PROGRAM, WHICH SUPPORTS THE PEACEFUL TRANSITION OF SOUTHERN AFRICA TO MAJORITY RULE, A MAJOR U.S. INTEREST. SCHOLARSHIPS ARE OFFERED AT SECONDARY AND UNIVERSITY LEVELS TO BLACK STUDENTS DENIED ACCESS TO SUCH EDUCATION IN THEIR HOMELANDS. MANY OF THE GRANTEES STUDY IN THE UNITED STATES. THEIR TRAINING HERE AND IN OTHER WESTERN COUNTRIES SHOULD ENABLE THEM TO OBTAIN FIRST-HAND IMPRESSIONS OF WESTERN CONCEPTS AND IDEALS IN ACTION -- CONCEPTS WHICH WILL LATER ASSIST THEM TO ASSUME RESPONSIBLE POSITIONS IN GOVERNMENT, BUSINESS, AND EDUCATION.

UN VOLUNTARY FUND FOR THE DECADE FOR WOMEN (VFDFW)

THIS SPECIALIZED FUND SUPPORTS PROJECTS WHICH BENEFIT THE MOST ECONOMICALLY DISADVANTAGED WOMEN. THE EMPHASIS IS ON ACTIVITIES WHICH IMPROVE WOMEN'S ABILITIES TO CONTRIBUTE TO THEIR FAMILIES, COMMUNITIES, AND COUNTRIES. U.S. SUPPORT OF THESE ACTIVITIES IDENTIFIES US WITH THE SOCIAL AND ECONOMIC ADVANCEMENT OF WOMEN WORLD-WIDE.

THE FUND SPONSORS A DIVERSITY OF PROJECTS WHICH INCLUDE COMMUNITY SHOPS, FUEL AND ENERGY DEVELOPMENT TRAINING, BRICK INDUSTRY FOR RURAL WOMEN, AND MARKETING OF HANDCRAFTS. A $500,000 U.S. CONTRIBUTION TO THE FUND IN FY 1984 WILL HELP ASSURE THIS WIDE RANGE OF PROJECTS.

CONVENTION ON INTERNATIONAL TRADE IN ENDANGERED SPECIES (CITES)

THIS $150,000 REQUEST COVERS THE UNITED STATES TARGETED

PORTION OF THE CITES SECRETARIAT'S BIENNIAL BUDGET. THIS CONTRIBUTION WILL SUPPORT INTERNATIONAL WILDLIFE CONSERVATION MEASURES. THE CONVENTION ON INTERNATIONAL TRADE IN ENDANGERED SPECIES IS THE PREEMINENT WILDLIFE CONSERVATION TREATY. IT HAS ESTABLISHED MACHINERY FOR ADVOCATING PROTECTION OF ENDANGERED SPECIES OF FLORA AND FAUNA. THE UNITED STATES PLAYED A LEADING ROLE IN THE CREATION OF CITES.

IN SUMMARY, MR. CHAIRMAN, WE BELIEVE THIS REQUEST FOR THE IO & P ACCOUNT TAKES INTO CONSIDERATION THE NEED FOR BUDGETARY STRINGENCY YET PROTECTS OUR POLITICAL, ECONOMIC, AND SECURITY INTERESTS. WE BELIEVE CONTINUED U.S. SUPPORT FOR THE PROGRAMS OF THE ACCOUNT IS VITAL TO THE LEADERSHIP ROLE OUR NATION SHOULD PLAY IN THE MULTILATERAL AND INTERNATIONAL ARENAS. WE HOPE THE CONGRESS AND YOUR COMMITTEE AGREE AND WILL SUPPORT THE FULL REQUEST.

THAT CONCLUDES MY STATEMENT. I WILL BE HAPPY TO RESPOND TO YOUR QUESTIONS.

SUBMITTED QUESTIONS

Senator **Kasten**. We have some questions to submit for the record. We will submit those questions to you for your response.

[The following questions were not asked at the hearing, but were submitted for response subsequent to the hearing:]

QUESTIONS SUBMITTED BY SENATOR KASTEN

Senator Kasten: Despite the fact that the United States did not sign the Law of the Sea, is it true that we continue to help pay for the conference?

Ambassador Kirkpatrick: We have announced publicly that we intend to withhold the U.S. share of the costs associated with the Law of the Sea preparatory commission. We have taken the position that the costs of the preparatory commission are costs for an organization distinct from the U.N. itself, and therefore are not a lawful assessment on UN members.

As President Reagan said on December 30, 1982:

"On December 3, 1982 the United Nations General Assembly passed a resolution that would, among other things, finance the Preparatory Commission under the Law of the Sea treaty from the regular UN budget.

My Administration has fought hard to uphold fiscal responsibility in the United Nations systems, and, in this case, consistently opposed this financing scheme. It is not a proper expense of the United Nations within the meaning of its own Charter, as the Law of the Sea Preparatory Commission is legally independent of and distinct from the UN. It is not a UN subsidiary organ and not answerable to that body. Membership in the UN does not obligate a member to finance or otherwise support this Law of the Sea organization.

Moreover, these funds are destined to finance the very aspects of the Law of the Sea treaty that are unacceptable to the United States and that have resulted in our decision, as I announced on July 9, 1982, not to sign that treaty. The Preparatory Commission is called upon to develop rules and regulations for the seabed mining regime under the treaty. It has no authority to change the damaging provisions and precedents in that part of the treaty. For that reason, the United States is not participating in the Commission.

My Administration has conducted a review of the financing scheme for this Commission. That review has confirmed that it is an improper assessment under the UN Charter that is not legally binding upon members. It is also adverse to the interests of the United States. While the United States normally pays 25 percent of the regular UN budget, the United States is opposed to improper assessments and is determined to resist such abuses of the UN budget.

In this light, I have decided that the United States will withhold its pro rata share of the cost to the United Nations budget of funding the Preparatory Commission."

Senator Kasten: Over the years Congress has put a number of restrictions on U.N. funding. Have any of these restrictions been invoked by the State Department or by you in dealing with the United Nations?

Ambassador Kirkpatrick: The Congressional restrictions are being implemented and we have in the past and continue today to withhold our proportionate share of funding for UN programs for Cuba, SWAPO and the PLO from contributions financed from the International Organizations and Programs account, just as the law requires. In addition, we are withholding the U.S. proportionate share of what the U.N. budgets for the Committee on the Exercise of the Inalienable Rights of the Palestinian People, and for the Special Unit on Palestinian Rights, as is required by PL 96-60 and PL 97-241.

At the same time, I also have to point out there is a very large gray area here in the sense that sometimes we cannot be completely sure whether one or another UN activity, which ostensibly is being conducted for quite other purposes, in fact is operating for the benefit of SWAPO, or Cuba or the

PLO. For example, in the case of the United Nations Relief and Works Agency, which provides assistance to Palestinian refugees, we learned only after the Israelies occupied Southern Lebanon, that a particular UNRWA school was being used by the PLO as an arms depot, and that PLO training was being conducted there. Not only that, but the school authorities were so linked to the PLO that 18-months service with the PLO was made a requirement for receiving a diploma. These facts came to light after years of receiving formal certifications from UNRWA that no part of any US contribution was used to furnish assistance to any refugee who is receiving training from any guerrilla organization or has engaged in acts of terrorism, certifications required by US law.

Again in the case of UNRWA, there also is some question as to whether the organization's basic philosophy and mode of field operation foster and maintain situations of extreme dependency and frustration, which in themselves complicate the problem of Palestinian resettlement and perhaps even make PLO recruitment tasks easier. This is not an easy matter to decide.

In the case of UNESCO, between 1974 and 1976 we actually had to withhold our payments in protest at actions of the UNESCO General Conference to levy sanctions on Israel, and to adopt procedural rules which made it difficult for Israel to participate fully in the work of the organization. Although we resumed payments in 1977, the fact is some of those sanctions against Israel remain on UNESCO's books. Should we have resumed payments in 1977? Should we again suspend them?

As I've said, this is a gray area, and one which required a lot of judgmental skill both as to the UN activities themselves and as to Congressional intent. It might be useful for the General Accounting Office to look into the matter, and to assure itself and you that you are satisfied with our interpretation of the language of the legislation and the intent of Congress is being carried out. I, in fact, would welcome such an investigation and would recommend it also look into the question of whether the language of present legislation is sufficiently precise and specific to convey fully the intent of Congress,or whether more specificity would be desirable.

Senator Kasten: You obviously are taking a much more aggressive role in the United Nations in trying to successfully put forward U.S. interests in that body. How are you going about getting others to join with us in these efforts?

Ambassador Kirkpatrick: My staff and I spend quite a lot of time in personal persuasion, often one-on-one, sometimes at larger meetings, to persuade the representatives of other countries, or at least to provide information and to make our views known. In addition, we emphasize that we do care about these issues, and that they are important to the United States government and the American people. And we try to make the point, without appearing in any way to be threatening, that we do see linkages between overall bilateral relationships and voting patterns in the UN.

In a good many cases just being clear about what we think and why, well in advance of a vote, has a real impact. In others, the suggestion that Congress is also interested in UN outcomes helps.

Senator Kasten: What is the current salary structure of the U.N.? Do you believe it is high or low, and whether or not you feel a review of the salary structure of the U.N. might well be in order?

Ambassador Kirkpatrick: The UN system has seven grades which span the area between GS-9 and the Senior Executive Service in the American system. Net pay for these seven UN grades runs from $21,649 to $76,877 and averages about 25% more than for counterpart jobs in the U.S. civil service. We have taken the position that most UN personnel serve outside their own country, it is not unreasonable for U.N. salaries to be about 15% higher than U.S. civil service salaries, but obviously that difference is now being exceeded. On that basis, the U.S. opposes any increases in UN pay until the margin drops below the 15% figure.

As far as a review of U.N. salary structure is concerned, such a review is now in process, being conducted by the International Civil Service Commission. We supported having the review and will look forward to receiving the Commission's findings, which are to be put before the General Assembly in 1984.

Senator Kasten: One of the items addressed in the recent Secretary General's report concerned the problems associated with U.N. peacekeeping operations. The criticism was that there are more instances where peacekeeping forces are non-U.N. forces. Could you comment on this particular phenomenon, as well as the overall Secretary General's report which many thought was one of the more realistic critiques of the U.N. in a long time?

Ambassador Kirkpatrick: The Secretary General's report indeed was one of the more realistic evaluations of U.N. activities, particularly in the area of promoting international peace and stability. The Secretary General discussed many problems facing the U.N., a good many of which can be attributed to the development of the bloc-voting system, and to the use of the U.N. for rhetoric and propaganda as opposed to serious, practical efforts to resolve problems between nations. The Security Council has been holding a series of consultations about the Secretary General's report and plans to produce its comments sometime before the next General Assembly. In all probability, the Security Council report will not suggest major surgery, but will try to identify areas in which the work of the U.N. can be improved in incremental but meaningful ways. However, I must say that unless the effects of politicization and bloc behavior can be reduced, improvements are likely to be slow and, at best, modest.

Regarding peacekeeping operations, the Secretary General prefers to act through the U.N. Nonetheless, I think the Secretary General was not so much criticizing non-U.N. peacekeeping ventures, but rather giving recognition to the fact that in some recent cases the objective circumstances meant that traditional U.N. peacekeeping operations simply were not a feasible alternative. Successful peacekeeping activities depend on the consent and cooperation of the parties to the dispute. In addition, UN peacekeeping requires agreement in the Security Council, in which the permanent members of course have a veto. In some recent cases, it simply was not possible to satisfy both those sets of requirements -- for example, in the cases of the multinational force in and around Beirut, and earlier in the case of the multinational observer force in the Sinai.

We believe there is a need for both kinds of peacekeeping forces, U.N. and non-U.N., and our efforts ought to be directed to whichever is the most effective means of restoring and preserving peace.

Senator Kasten: What is going on at the UN right now with reference to the continuing occupation of Afghanistan by the Soviet Union?

Ambassador Kirkpatrick: The Secretary General's personal representative for negotiations on Afghanistan, Diego Cordovez, continues his efforts to find avenues for a negotiated political settlement. He has held several rounds of talks with representatives of Pakistan, the Soviet Union, and the puppet regime in Kabul. Naturally, we support the Cordovez mission and hope it can be successful. At the same time, we are alert to efforts by the Soviet Union to redefine the issue as a problem caused by outside support for the Afghan resistance fighters and not as a problem caused by the Soviet military invasion and takeover of a neighboring, non-aligned state.

As far as the United States is concerned, we want an overall solution consistent with the four basic elements contained in General Assembly resolutions on Afghanistan, resolutions passed year after year since the Russian invasion in 1979: (1) Withdrawal of Russian troops; (2) restoration of an independent, non-aligned Afghanistan; (3) self-determination for the Afghan people; and (4) the right of the Afghan refugees to return to their country in safety and honor.

Senator Kasten: The Non-Aligned Movement has undertaken a number of changes since its beginning. What is going on with the Non-Aligned Movement at the present time? How would you describe its current attitude toward the U.S. and Western interests?

Ambassador Kirkpatrick: India replaced Cuba as chairman of the movement at the March meeting of the Non-Aligned in New Delhi. We certainly hope this will result in the movement's returning to a posture of true non-alignment, though I must point out that the communique adopted in March at New Delhi is far from reassuring in that regard. For example, U.S. Middle Eastern policy is "condemned" as being "prejudicial to the liberation of the occupied Arab and Palestinian territories." We also are condemned for giving support "to the Israeli entity in all fields." In the Latin American section of the Non-Aligned communique, the situation in El Salvador is described as deteriorating because of "imperialist intervention", and the U.S. is called upon to "cease immediately and unconditionally all acts of aggression and threats, and lift the economic blockade against Cuba." And while in these sections and elsewhere, the U.S. is criticized by name, there is nowhere any specific criticism of the Soviet Union.

So although there are indications that India would like to steer the movement away from some of the more radical stands it took in the past, and although we know that many members of the non-aligned movement share this object, one would have to say that up until now they have had only very limited success.

Any discussion of what took place at the New Delhi meeting would be incomplete without some special mention of Singapore's role at that meeting. The Singapore Foreign Minister very energetically pointed out anomalies in the movement's claims to be truly non-aligned, and argued very forcefully that it should return to first principles. Others as well have assured us that they share this view and want to end the period of confrontation with the West and the U.S. We wish them well, and we hope they will be successful in that regard. I note that at New Dehli the movement decided to enlarge its Coordinating Bureau, and that this was done specifically in order to give the moderates a greater voice. It will be interesting to see what changes result.

Senator Kasten: What can or should Congress do, in your opinion, to help restore U.S. influence internationally?

Ambassador Kirkpatrick: I believe Congress has done quite a lot to help. The hearings which this and other subcommittees and committees hold, the reports they issue, and the statements of the members, placing on the record the views of the elected representatives of the American people, are all powerfully persuasive.

There are many examples of this which could be cited. For instance, the hearings held last year on S. Con. Res. 68, sponsored by a group of Senators including, I believe, you yourself, Senator Kasten. The process of hearings, leading to the adoption of resolutions, and finally to binding legislation enacted as PL 97-322, served notice to those planning to expel Israel from the United Nations that they could succeed only at the price of destroying U.S. support for the U.N.

I would mention also Section 720 of PL 97-113, which began as sense of the Congress resolutions sponsored in the Senate by Senator Moynihan and in the House by Representatives Gilman and Ireland. This provided that in deciding on foreign aid to countries, the President should take into account whether those countries have dissociated themselves from the September 1981 Non-Aligned Communique which, as you will remember, contained vicious attacks on the United States. As a result of this legislation, personnel from US diplomatic missions around the world called on Foreign Ministries in aid recipient countries to explain the meaning of the legislation and, as well, why we were offended by that particular communique.

I firmly believe that whatever Congress can do to communicate its active concern with the behavior of other states in the U.N. and in other multilateral gatherings is going to help. Conversely, it damages our participation in the UN whenever Congress makes decisions on matters which importantly affect other nations -- for example on economic or military assistance -- without taking into account and giving weight to their treatment of important U.S. interests in the UN.

Let me be clear about this. I do not suggest that other nations should in their UN votes place our national interest above their own. In fact, we would never ask a country to vote in a way contrary to its own national interest. And I don't believe that how a country votes in the U.N. should be the only or the determining criterion for U.S. assistance and support. However, when our own national interest is very deeply involved and the other country's is not -- for example, when Cuba tried to mobilize the General Assembly to interfere in our relationship with Puerto Rico -- or when a very basic matter of principle is involved such as the attempt to deny Israel's right to participate in the UN, then I think it is reasonable to expect our friends to give weight to our views. And reasonable as well for us to give weight to their actions.

Senator Kasten: Certainly the primary founding principle of the United Nations is the principle of universality of membership in the organization. That principle has taken somewhat of a beating over the years. Could you tell the Subcommittee what your assessment is currently of the membership's view of that principle? Do they, in fact, support the universality of membership principle any more?

Ambassador Kirkpatrick: I think you would find that an overwhelming majority in the United Nations would claim to support the principle of universality. Yet at the same time, there has been a successful attempt to deprive South Africa of its ability to participate in the work of the U.N., and a number of attempts to deny Israel the ability to participate in the General Assembly and some of the specialized agencies. So it is clear that some member states which claim to support universality as a principle, in fact do not do so as a practice.

As far as we are concerned, there can be no doubt of U.S. support for the principle of universality. We made this clear last year both before and after the International Atomic Energy Agency rejected Israel's credentials at its September 1982 General Conference, and when further attempts -- fortunately unsuccessful -- were made to block Israeli participation in the International Telecommunications Union, and even in the General Assembly itself. Reflecting the sense of Congress as it was expressed in Senate concurrent resolution 68 and House concurrent resolution 322, on October 16, 1982 Secretary Shultz made an unequivocal statement that if Israel were denied its right of participation in any UN body, the United States would cease its own participation in and financial support for that body. This was subsequently made a matter of law by PL 97-322.

These forthright statements had the necessary effect. The moves to expel Israel from the ITU and to reject its delegates credentials in the General Assembly were stopped in their tracks, just as a few years earlier by withholding our payments to UNESCO we ended a situation in which parliamentary maneuvering had been used to keep Israel from full participation.

SUBCOMMITTEE RECESS

Senator **Kasten**. This concludes our hearing. The subcommittee will stand in recess until tomorrow morning when we will hear from Mr. William Draper, President of the Export-Import Bank.

Thank you very much, Ambassador Kirkpatrick.

Ambassador **Kirkpatrick**. I thank you, Mr. Chairman.

[Whereupon, on Monday, March 7, the subcommittee was recessed, to reconvene Tuesday, March 8, 1983.]

FOREIGN ASSISTANCE AND RELATED PROGRAMS APPROPRIATIONS FOR FISCAL YEAR 1984

TUESDAY, MARCH 8, 1983

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, D.C.

The subcommittee met, at 10:03 a.m., in room S-126, the Capitol, Hon. Robert W. Kasten, Jr. (chairman), presiding.

Present: Senator Kasten.

EXPORT-IMPORT BANK OF THE UNITED STATES

STATEMENT OF WILLIAM H. DRAPER III, PRESIDENT AND CHAIRMAN, EXPORT-IMPORT BANK OF THE UNITED STATES

ACCOMPANIED BY:

WARREN W. GLICK, GENERAL COUNSEL, EXIMBANK
JAMES K. HESS, ACTING TREASURER-CONTROLLER, EXIMBANK

INTRODUCTION OF WITNESS

Senator KASTEN. The subcommittee will come to order. This morning we continue the hearings on the administration's fiscal year 1984 budget requests with testimony from Mr. William Draper, Chairman and President of the Eximbank.

Mr. Draper, as you know, your full statement will be entered in the record. In order to have time for questions, we are hopeful you will summarize your statement, and you will have an opportunity to respond to questions.

Thank you very much for joining us this morning. I look forward to your statement. Please proceed.

FISCAL YEAR 1984 BUDGET REQUEST

Mr. DRAPER. Mr. Chairman, and members of the subcommittee, once again it is a pleasure for me to appear before your subcommittee to discuss Eximbank's budget for fiscal year 1984. Our budget request is based upon the assumption that the economic climate in the United States will improve throughout 1983 and into 1984. We foresee an increased demand for U.S. exports and a continued decline in interest rates.

The recovery of the U.S. economy, which we expect to occur this year, should be reflected globally in fiscal year 1984. There should be an increase in demand for exports in most capital goods.

Our total budget request for fiscal year 1984 reflects these assumptions. It consists of the following: $3,830 million for direct loan obligations, which includes $3,730 million for regular loans, and $100 million for discount loans; $10 billion for guarantees and insurance; and $16,899,000 for administrative expenses.

The $3,730 million being requested for regular loans will be used to support exports of items requiring repayment terms of 5 years or more. It will also be used to fund a new facility, the medium-term credit program. The purpose of this program is to fill a gap long existing in the coverage under our other programs. Specifically, we will now provide support for medium-term export sales that are facing subsidized, officially supported export credit competition from abroad.

In addition, the Bank is budgeting $100 million for the discount loan program for fiscal year 1984, as we did in fiscal year 1983. Funds under this program are targeted toward small manufacturers. The total $3,830 million figure requested for direct loan applications in fiscal year 1984 is the same as we estimated for fiscal year 1983.

Because U.S. market rates of interest should be below the minimum OECD arrangement rates of interest now charged by Eximbank and other official export credit agencies, we think that many U.S. exporters will be able to compete using commercial financing with our guarantee. That is, private lenders will provide the financing, and we will give them a comprehensive guarantee. Thus, the $3,830 million when coupled with our increased guarantee authority of $10 billion, should be adequate even with an upsurge in demand for U.S. exports.

However, if market rates go back up or if we are unsuccessful in negotiations with our major trading partners, the administration is committed to making competitive financing available to U.S. exporters, and the President has expressly stated in his budget message to Congress that he will request supplemental direct credit authority of up to an additional $2,670 million "if necessary to meet subsidized foreign officially supported competition."

EFFORTS TO ELIMINATE SUBSIDIES

Under all of our programs, we are mindful of our basic objective to provide financing on terms and conditions which are competitive with those of the Government-supported financing available to exporters from other countries. At the same time, we have been trying to do away completely with the subsidy element in export credit financing. Our efforts over the past 2 years have been successful in this regard. We were able to negotiate a common-line agreement on aircraft financing with the governments that comprise the Airbus Consortium.

The result of this agreement has been largely to eliminate financing as a sales tool for aircraft sales. Most recently, we have been exploring, within the OECD framework, the possibility of further raising minimum interest rates for aircraft but allowing longer terms.

We have also reached agreement with other OECD countries regarding financing for nonaircraft capital goods. The result of these agreements has been to increase the minimum lending rates charged by official export agencies to near-market levels. By the middle of last summer, a reduction of approximately 50 percent in the subsidy content of officially supported export financing had taken place.

Since then the decline in market rates has virtually eliminated the remaining subsidies so that Eximbank can now charge the same rates as other OECD countries. In short, competitive financing is available under Eximbank's programs, and only the rather gloomy economic conditions worldwide which have kept down demand for U.S. exports may prevent us from fully utilizing our resources.

CLAIMS

Worldwide economic conditions have also caused a substantial increase in the number of claims received by the Bank. Claims will continue to rise because countries like Mexico and Argentina are experiencing balance of payments and debt service difficulties, which prevent them from making payments on their debts when they come due.

Approximately $240 million in claims have already been received by the Bank and FCIA, and we are projecting an additional $500 million concentrated largely in Mexico. I believe we will recover most of these claims. Many of them arise from transactions involving private buyers who will continue to remain in business. We also believe that governments will honor their obligations once they are again financially able to do so. For the present, however, Eximbank has no choice but to bear the responsibility for leadership in these troubled markets.

If credit is turned off to these countries they will be unable to buy U.S. goods and services which could endanger the U.S. and world recovery. The private financial market is doing its part to help out these countries, but they cannot assume all of the risks. Consequently, Eximbank's financial support must be an important element in the total U.S. Government effort to combat protectionism by providing a "credit bridge" across which trade can flow until recovery begins.

That is why, for example, as part of a worldwide effort to help Mexico, we remain open for business there, and in particular, we recently approved two lines of credit to Mexican buyers for $100 million each to be used to support short-term U.S. export transactions.

GUARANTEE AND INSURANCE REQUEST

With respect to guarantees and insurance commitments, Eximbank's fiscal year 1984 budget requests a level of $10 billion. This is $1 billion above the limit approved by Congress for fiscal year 1983 and should give us adequate resources to provide risk protection under both our short- and medium-term programs, as well as financial guarantees for project loans at market rates from the private sector.

By contrast, to the $10 billion level as a result of the weak global economy, insurance and guarantee activity for fiscal year 1982 totaled only $5,800 million. In addition to the financial guarantees which we offer in conjunction with the direct loan program, the Bank has several other guarantee and insurance programs. Eximbank provides risk protection on sales financed solely by the private sector. We offer medium-term bank guarantees which cover goods and services customarily moving on terms of 181 days to 5 years.

Our export credit insurance programs cover both short-term—that is, repayment up to 180 days—and medium-term transactions, and are operated in cooperation with the Foreign Credit Insurance Association, an association of 42 private marine and casualty insurance companies. The $10 billion figure we have requested should provide ample authority not only for the financial guarantee program, but for our other guarantee and insurance programs as well.

CHARTER RENEWAL

In closing, I would like to mention that our statutory charter, the Export-Import Bank Act of 1945, as amended, is up for renewal this year. We are seeking a 5-year extension until September 30, 1988, and with the budget request I have outlined above, I am confident that we will be able to meet the needs of U.S. exporters as they confront the challenges of the global economy in recovery.

Thank you, Mr. Chairman, I am now prepared to answer any questions that you or the members of the subcommittee may have.

CLAIMS PROCESS

Senator **Kasten**. Thank you. You mentioned the claims of Mexico and others. What kind of a process do you have to monitor those claims? At what point would you write them off as losses?

Mr. **Draper**. We are not used to paying claims of this magnitude in the past, but there is a regular program for following up on claims. We have a division that tracks them and tries to recover. We have two different parts in the division. One is the processing end of the claim, making sure it is properly applied for and so on. Then you have the recovery section which attempts to get back the money once the claim has been paid.

Senator **Kasten**. What is your evaluation of Mexico—you said you had extended $100 million more to Mexico recently?

Mr. **Draper**. We have $100 million more for short term in each of two different facilities. So really, it is a $200 million line in effect for parts and short-term items that typically are required in order to keep the economy going.

Senator **Kasten**. You are going to have to speak up just a bit for the people in the back of the room.

Mr. **Draper**. We have been visited by several delegations from Mexico, and we have worked out some arrangements that seem to be satisfactory to them. I think that will solve some of the immediate problems.

STEPS TO USE INCREASED AUTHORITY

Senator **Kasten**. What was the specific action taken by the Eximbank as a result of the congressional action increasing your direct loan authority in the current fiscal year to $4,400 million?

Mr. **Draper**. We put in a medium-term program that we thought would help use up that authority. We have reduced the interest rates to the OECD minimums, and, essentially, we have approved about 95 percent of all the cases that came before the Bank's board. So we have been very aggressive, but the fact is that we did not use the full authority last year and probably will not this year despite this increase, because business has been down in 1982 and 1983.

As you know, I think, in the latter part of 1982 we had a cancellation on a Thaipower case that was late enough in the fiscal year so that we could not use the full loan authority that was available to us, the full $4,400 million. We fell short by about $1 billion, which is about the amount of the total Thaipower request.

In 1983, I think we will definitely not be using the $4,400 million.

Senator **Kasten** Excuse me? You will have difficulty? In other words, the demand for the use of the Eximbank financing is not there right now? Is that what you are saying?

Mr. **Draper**. Right.

FISCAL YEAR 1983 BUDGET USE

Senator **Kasten**. One of the things that was frustrating to some of us in Congress was that your budget submission shows tables for the year's current activity at $3,830 million which was the administration's request before we increased it. It seems to a number of people in Congress and people in the business community that despite the fact that the Congress moved to increase it, it is your intention to stay at the level that you initially requested.

Mr. **Draper**. No, that is not true, Mr. Chairman. Our intention is not the important thing. The important thing is how many applications come into our Bank. We take those applications on a case-by-case basis and try to push them through into completing a preliminary commitment that we make to the exporter or to the purchaser of the exporter's product.

Then we sit and wait until the buyer decides to buy the product. We currently have about $8 billion of preliminary commitments outstanding. As I say, our board has approved about 95 percent of all of those cases that have come before us this past year.

Senator **Kasten**. So the problem in your opinion is a lack of demand at the present time.

Mr. **Draper**. Yes.

Senator **Kasten**. It just happens to turn out that the $3,830 million is the same number that you submitted before. That is the number you are carrying in your budget submission.

Mr. **Draper**. You are talking about the 1983 budget or the 1984?

Senator **Kasten**. The 1983. Your 1983 request was $3,830 million.

Mr. **Draper**. Right.

Senator **Kasten**. We increased that to $4,400 million. Your budget submission, the documents that have been published, act as if we did not increase it. In other words, you are still running essentially at the $3,830 million level.

Mr. **Draper**. I think you have to understand that our budget was prepared based on what we estimated might happen in 1983. We had estimated that number primarily based on two sets of figures for 1983. We had nonaircraft and nonnuclear demand that has always run about $2,500 million, but you do not know how much they will actually end up running. The aircraft cases that we thought might involve our support ended up being about $1,100 million for 1983, so we added that on to the $2,500 million.

We did not expect any nuclear business in 1983. As I said, we had the cancellation in 1982 of the Taiwan power unit, and they said they would come back in 1984 but not in 1983, and there was nothing else in nuclear on the horizon. So with those two numbers, we got up pretty close to the $3,830 million that we had requested. We could not see anything else in demand.

That, you have to realize, was put together long before 1983 began.

Senator **Kasten**. Let me say this another way. What do you think was the intent of the Congress, the House of Representatives and the Senate, when it increased your loan activity to $4,400 million in 1983?

Mr. **Draper**. You wanted to make sure we had authority to be able to meet the applications that came before us. And we have plenty of authority; we just have not been able to use it because there are not enough applications that actually end up being authorized.

PROPOSALS FOR EXIMBANK REAUTHORIZATION LEGISLATION

Senator **Kasten**. You mentioned you are in the process of reauthorization now. As you know, that is not the role of this committee. But we have been working with various Members of the Senate on these questions.

Mr. **Draper**. Right.

Senator **Kasten**. With respect to the reauthorization of the Eximbank, I would like to get your views on some of the suggestions that have been made. The first is the Bank's charter language with respect to competitiveness, so that it is clearly understood that the main mandate of the Eximbank is to be competitive. I believe that some language to this effect has been suggested, and I also believe that some versions of this language have been shown to you. What is your view on this overall question of matching the competition?

MANDATE TO BE COMPETITIVE

Mr. **Draper**. We know that we have a mandate to be competitive. It is spelled out very clearly. We have tried to abide by it. We believe that currently we are competitive. We have interest rates that are at the OECD minimum. We did not lower ours to those minimums until the beginning of the year for strategic reasons.

In the negotiations we wanted to call attention to the fact very close on to the new negotiations coming up and that we were prepared to come right down when we saw we could not get our partners to go any further up. We think we have got a good arrangement right now, so we feel that we are competitive in interest rates.

We have a front-end fee that actually can be paid over 3 years. It is really not on the front end but it starts at the beginning of the loan. That fee is 2 percent. The French average 3 percent on their required insurance, which we do not have. The British average about 3 or 4 percent on their fees. They vary somewhat according to the risk in the country. Canada has fees in about the same category. It goes up to 7 percent, but they have standardized. It used to be through negotiation.

So our fees are definitely competitive, our interest rates are competitive. We feel that our coverage is competitive because we go up as high as 75 percent of cover. If the exporter will participate to the extent of another 10 percent, in view of the fact that market interest rates and the OECD minimums are so close, it is no penalty for the exporter to go borrow from the Bank at the same interest rate in effect that we in the other countries would be charging. So there you have what we have done in regard to competition and to show that we do really believe in the mandate that Congress has given us to be competitive.

Now, the question is how do I feel about the other side of it; should we just consider the mandate to be competitive, or should we also take into consideration the cost of money when setting our interest rates, as the act now requires.

I feel that that is the element in the act that forced some creativity on the part of our management to try and bring about the OECD agreement that we have now reached. I do not think we would have paid attention to that, and I certainly would not have gotten involved in any direct negotiations if my only mandate was to be competitive regardless of interest rates and costs.

But I think, on the other hand, that if that gets to be a constantly declining spiral of price cuts, which it easily could become, it could become a credit war. Then it is very unattractive to us and very unattractive to our competition. So I would be against eliminating that portion of the act. I think it reads well because it does make you try to balance those two factors. I know we have to be competitive, but by the same token it forces some creativity on the part of management to try to do something about your costs.

Senator KASTEN. In fact, aren't we in a credit war right now? Isn't that, in fact, what the whole thing is about, vis-a-vis the French? We are in a credit war, and they are winning in financing, and your job is to match or beat them so we can provide jobs for Americans.

Mr. DRAPER. I do not think I agree with that.

Senator KASTEN. You do not think we are in a credit war?

Mr. DRAPER. It depends on what you call a war. A war means everything is fair, and we have some rules and we abide by them and they abide by them. We have an agreement; it is an international agreement that 22 countries participate in. I do not think there is a wide-open war.

NEED FOR MANDATE LANGUAGE CHANGE

Senator **Kasten**. Then your answer to my question is that you are opposed to language that would emphasize that the main mandate is to match the competition, that we could do better. In your reauthorization bill, do you want to reemphasize that?

Mr. **Draper**. This is your business, but my opinion is the language reads very well.

Senator **Kasten**. Last year, you said on the same set of questions "I do not know." My question to you was how do you interpret the mandate of the Bank, and you said, "I do not know. I read the two and when I was confirmed by the Senate I said I would manage to try to balance those two, I would recognize equal weight to both cases. I did not weigh one more than the other."

At that point, we were talking about your idea of the necessity to make a profit or at least to not lose money versus the idea of being competitive. This year, you have switched.

Mr. **Draper**. It does not say you have to make a profit. It says take into consideration the cost of money in setting your interest rates. I mean that I do take that into consideration. There are lots of priorities in the Bank, and lots of things we are trying to accomplish, and it is very difficult to put exact weight on any one thing.

There is no question that we are trying to be competitive, as competitive as we possibly can be. But through negotiation we have brought competition up to what we consider an appropriate interest rate. Thanks to the administration's policies and other factors, interest rates around the world have come down, so that we have really reduced the subsidy. It is not a major problem today.

Senator **Kasten**. Do not misunderstand. I applaud your efforts in terms of trying to reach these agreements. There is, as you know, a difference of opinion as to how good these agreements are holding and whether they are holding across the board. Whether they can be expanded into—I do not know what you call the category, nonaircraft or whatever. But there still is a large question as to whether or not, in fact, we are as competitive—that you are as competitive as the Congress would like for you to be.

We increased the funding; you are not using it. We want you to be more competitive. We want you to match them, and there is a sense, at least in the Congress from a number of my colleagues, that that is not what is happening right now. That is what I am trying to deal with.

Mr. **Draper**. I would make one point. Maybe the Congress could help on this. Instead of making speeches that we are not competitive, I think you could help by stating the facts that we have interest rates that are identical to those that are required in an international agreement that we not go below, and we are competitive on our fees. Our fee structures are actually below most of the competition, with the exception of the Japanese. They are not using subsidies, although I am the first to admit they are gaining market share; they are the only ones who are gaining market share.

So I was just going to suggest that perhaps you could help us because our public affairs staff is very limited, and we rely on your help to cooperate to, at least, point out that the U.S. Government is competitive.

Senator **Kasten**. I am sure you are aware that the facts are in dispute. There are some who feel that you are, in fact, competitive. There are those also in the business community who feel that we are not competitive enough, that we are not meeting and matching the competition, that we are not standing up in opposition to the credit financing of the French and other countries.

Mr. **Draper**. I think that argument was a better argument a year ago when we were in the middle of negotiations. We were trying to lead the way to show that all of these countries were foolish in the programs that they were undertaking, which was part of the President's program to fight subsidy and, in particular, foreign subsidy. So we did try to bring about agreement, and your argument or that argument of those exporters was a better one a year ago because I think we really were out in front. We did take the lead in raising interest rates, and it took 2 months before our competitors followed, and another 2 months after we went up further. They again took several months to get up to us.

MIXED CREDITS

Senator **Kasten**. Some of our trading members, especially France, and I think the same is true of the British and Japanese—use mixed credits to support their exports. A system where you have export financing along with grant foreign aid—so far, this is not something that we have been engaged in to the degree of some of our competitors. Do you think that we should? Have you and AID been working more closely together to provide these mixed credit packages in response to some of our competitors overseas?

Mr. **Draper**. We have worked together with AID. Particularly one case comes to mind, in Egypt, where we funded some turbines, and they did too in the same project. The fact is that we have not done very much in working together with them.

But here again, I think the major progress has been made through negotiations in the mixed-credit area. We have required now in the agreement, and all countries have agreed to it, that no less than 20 percent of the financing be below the minimum rates. If the mixed aid portion is below 20 percent, it is a violation, and therefore they cannot do it.

A lot of times they are seeding in a little bit of mixed foreign aid in order to reduce the interest rate on a particular project, and that is to buy the deal. That was an insidious kind of program. That is blocked out completely by this OECD arrangement so that anything below 20 percent is a violation; anything between 20 and 25 percent, we must be notified in advance so that any country can match it. This has eliminated a good bit of mixed-credit problems.

You are absolutely right. I just came back from the Far East. There are a lot of questions about where the Japanese are coming in and what they call untied aid.

Senator **Kasten**. "Untied"?

Mr. **Draper**. Untied. What they do is just make a loan to, for example, China. I am familiar with one there. They made a $1 billion loan to China, and the Chinese are free to use it in any way they see fit. But it primarily will be to develop minerals. And, for example, the Japanese require that if there is some shipment of coal out of China, they will get a proportion of the amount that is mined. Japan is most interested in their own resource supply, and they have made these untied loans in various countries.

There is another area in this mix. When I went down some 99 cases of mixed credits and scanned through those that we had dug out through the OECD records, it looked to us as if quite a few of those were in countries where we have no interest in financing anyway, that is in countries where we would not have a reasonable assurance of repayment.

Chad is one example. It is a typical aid program. The French really do have some aid to Chad, and we do too. But we at the Eximbank are not making loans to Chad because we do not see the reasonable assurance of repayment, which is a requirement. Is that a fair example? So Chad is an example of a country which really gets aid and then that could be considered as mixed credit because the French might do some business there too.

But I think we really have a handle on it with this OECD arrangement to block off the blatant examples of trying to buy a public project—a hydraulic plant or a nuclear powerplant or a locomotive or something with mixed aid. It becomes too evident, and if it is over 25 percent, that is a significant piece of anybody's aid budget.

Our AID budget, as you know, is about $5 billion. Maybe $750 million goes to Egypt and $750 million to Israel. So that uses up a big amount. I guess they help about 140—some high number over 100—countries. That is spread pretty thin. So for them to really help us in effect by a program, I just do not think it can work.

It is probably the best program to just pursue through negotiation because, frankly, none of the countries really like the idea of having to buy business. They really do not. They would rather get the business without having to buy it, and really those mixed aid programs are very often just given away. One example was Maggie Thatcher going to Cancun and offering to, in effect, give a steel mill to Mexico. I think she is absolutely shocked now, in view of what has happened in Mexico on what she did.

But very often these heads of state tend to want to make a sale when they make a trip to a foreign country, and so they get involved in it. Sometimes they get carried away. I have heard from the head of ECGD that they are very concerned about their exposure in some of these poorer countries that are having problems.

Senator **Kasten**. Essentially, what you are saying is that you think that through negotiation you can limit the use of mixed credits from other countries, therefore you do not believe we need to do more in terms of you working with AID in terms of competing with the mixed credit or, I should say, competing in the mixed credit arena, which seems to be a significant one.

Mr. **Draper**. I would not go that far. I would say that we should always do more to work with AID and see if there are areas where we might be able to help.

But we really are precluded, as I say, as is every other country, from putting in a small portion of aid. When it gets to be a large portion that is aid, then it may conflict with their objectives of what they are trying to do, which is often to build up the educational system in the country, to give aid to build roads and things that may be more infrastructure kinds of projects that we would not be involved with, or such as food programs, pharmaceuticals and such.

FIXED TERMS FOR EXIMBANK'S BOARD MEMBERS

Senator **Kasten**. Another question on the reauthorization is that the suggestion that the terms of the directors of the Bank be staggered, fixed terms instead of having all the directors serve at the pleasure of the President. As I understand the argument, the suggestion is being made so that it would underscore the independence of the Eximbank and also would effectively depoliticize the bank. What is your view on this question?

Mr. **Draper**. By the way, that gives me an opportunity to say that I think my entire board is here—they are a very effective group. Perhaps after the meeting you could take the time to say hello to them.

I would just say that I believe the Eximbank should be responsive to the administration that is in the White House, simply because I think that it does reflect the desires of your constituents. The constituents, in other words, the citizens of the United States, elect a President, and they want some changes made, presumably if he is a new President.

The trade policy may be a part of that, whether it is to be more aggressive or less aggressive or whatever. I think our Bank is a very stable institution. Next year will be our 50th anniversary. We have been a very responsive organization, responsive to exporters and so on.

We also feel that we are a government agency that does manage the assets of the taxpayers. I think we should be responsive to the President of the United States, and for that reason, I honestly believe that all five members of the board should be appointed by the President.

The only boards, as I understand it—and you can correct me—the only ones that are appointed in staggered terms are regulatory agencies, and we are not a regulatory agency.

RECONSTITUTE THE ADVISORY COMMITTEE

Senator **Kasten**. Another proposal, and I guess it is going in the same direction, is to reconstitute the advisory committee to get it more involved in the day-to-day workings of the Bank, to have members of the advisory committee participating in Bank board meetings. By saying that the Bank ought to be more separated, we ought to allow more participation from outside members and activities.

What is your feeling about reconstituting the advisory committee?

Mr. **Draper**. I do not feel strongly about it one way or the other. I tend to think advisory committees are good, depending on who is giving the advice, and I think that advisory committees can be cumbersome and can be overblown with form over substance in getting the report out, in quotes, as opposed to real solid help.

On the other hand, there have been some very good advisory boards in the past history, not just the Bank's but I mean the Government's history. So I am somewhat ambivalent. There is an added cost to it.

I frankly think that I am getting very good advice from lots of different sources. The exporters have direct access to me; I have regular meetings and luncheons that I set up in my office, inviting in our customers.

I have made visits out to Caterpillar, General Electric, Combustion Engineering. I have a trip planned to visit a plant, the Fuller Co. in Pennsylvania. I have been to Westinghouse and Wean and so on. So I do get their inputs and I see them on their territory and they see me on mine. I think there is just so much advice a man can take. [Laughter.]

I really have not gotten a shortage of advice this past year.

Senator **Kasten**. So your answer to my question is "no"?

Mr. **Draper**. I am not supporting any change in the program as it is, which does not require that.

POSSIBLE FISCAL YEAR 1984 SUPPLEMENTAL REQUEST

Senator **Kasten**. In your remarks you talked about the supplemental direct credit authority up to an additional $2,670 million, if necessary, to meet subsidized foreign officially supported competition. You are aware, I think, that the director of OMB in his speech to the National Press Club specifically stated that the administration's policy toward Eximbank has not changed, and that the indication in the budget of a supplmental, if needed, is, in his words, "meaningless."

What is the position of the administration on this $2,670 million, if necessary, to meet subsidized foreign officially supported competition? There seems to be some conflict here between your statement and the statement of the Director of OMB.

Mr. **Draper**. Well, this was worked out as a compromise approach in the administration. It got the support of the entire Cabinet Council meeting, which the President chaired and the Vice President attended, and got the support of the entire group. This is what was decided. That wording was agreed upon. The Cabinet has decided we will only request that money if it is needed.

The decision of whether or not it is needed, I think, will first come from the Eximbank, second from the Cabinet Council on Trade, CCT, that is chaired by Mr. Baldrige. The statement was in the budget documents submitted by the President. I assume you recognize that to be the official position of the administration.

Senator **Kasten**. What is frustrating is that, as you know, in the President's state of the Union message he also mentioned the Eximbank; but what is frustrating to some of us is that we are hearing two different messages. I hope that you are right, that the dollars will be there, if necessary, to meet officially supported competition. I think it is pretty clear, at least talking to my colleagues, that we are probably going to increase the dollars, and we are also going to try to be more sure that you are going to use them.

What is confusing is that we are getting mixed signals. As you know, this is an issue of significant debate within the administration, and you ended up with a compromise. But when OMB at the International Press Club says that the possibility of a supplemental is meaningless, that suggests to some of us that the whole thing is a sham.

Mr. **Draper**. No.

Senator **Kasten**. What can you tell us that will further reinforce this?

Mr. **Draper**. I assure you that the President's words are not a sham. David Stockman would not say they are a sham either. I did not attend that meeting nor hear that speech, so I do not know what exactly he had in mind. But I think what he really, perhaps, had in mind was that interest rates will be down long enough that we will be able to use guarantee authority on commercial bank financing and not have to draw on that additional $2,670 million loan authority.

In other words, if we do not need it, then that is one point of view. But if we do need it, there is no question that the President is going to ask for it. And we all are committed to that.

BORROWING AND LENDING SPREAD

Senator **Kasten**. Last year you stated that the Eximbank was lending at 8.75 to 9.75 percent while borrowing at rates approaching 14 percent. You also stated that the negative interest spread was threatening the long-term viability of the Bank. Now we see rates are coming down. What rate is the Bank lending now and at what rate is the Bank borrowing now? What kind of spread are you working with this year?

Mr. **Draper**. We are lending at the minimum OECD rates, which vary from 12.4 percent for loans that are over 5 years in the richest countries, to 10 percent on loans over 5 years in the poorest countries. There is a large set of countries in the middle that are neither on the World Bank/IDA list nor have per capita incomes of over $7,000 per year, and in those countries, we are lending at a rate of 11.35 percent for loans over 5 years and a slightly different figure——

Senator **Kasten**. That is the range? That is the cost?

Mr. **Draper**. Yes. That is the range.

Senator **Kasten**. What rate are you borrowing at?

Mr. **Draper**. Our average rate is 11.3 percent currently, and the last borrowing that we had from the Treasury was at 10.2 percent.

LONG-TERM VIABILITY OF BANK

Senator **Kasten**. So last year, you said, that the long-term viability of the Bank was threatened by the negative interest spread. This year you would say to us that the long-term viability of the Bank is no longer threatened?

Mr. **Draper**. I think as long as interest rates stay in balance with our costs, the viability of the Bank is not threatened. We have a lot of claims this year. We think that, as I pointed out, a good bit of that will be recovered.

We, again, are not saying that the long-term viability of the Bank is threatened by that claim situation. But we are staying aggressive and staying open in these countries that are having lots of trouble, providing this credit bridge that we think is essential to help our exporters get started again in countries that have had major problems.

It compares a little to the problems after World War II, when our Bank was used to help rebuild markets that were torn up by the war and to allow countries to be able to buy equipment that they needed and that our exporters needed to supply.

I might say that I do expect our net income in 1983 to show a loss of $730 million, which is much bigger than I ever projected before. The reason for it is that we will be writing off about $554 million of claims, which again we hope to recover in a later year.

We believe that because a lot of these are private claims and most of them are in Mexico, we will have to take a writeoff this year and then hope to recover in a later year.

LOSS EXPERIENCE

Senator **KASTEN**. How does that compare with the last 3 years? Is $554 million twice what it has been or five times what it has been? I am just trying to get a sense of this.

Mr. **DRAPER**. They have been under $20 million each year. This is a major change. But it is a major event that has occurred, and we have participated in trying to help with the problem. We are very proud of our participation and international cooperation has been unheard of and unprecedented in history—financial cooperation, at least—since the end of World War II.

Eximbank, the IMF, and the Treasury Department of the United States and other central banks have worked together to bring stability back into what could have been a major disaster. I think it is working, and nerves around the world are being calmed. The nervousness has disappeared. I should not say it has disappeared, but it is certainly a lot less than what it was.

Senator **KASTEN**. Tomorrow the Secretary of the Treasury is appearing before the subcommittee, and we are going to be talking about whether or not nerves have calmed. The IMF question is before us, and we are trying to deal with that one.

Mr. **DRAPER**. I would hope you would support it. The fiscal year 1983 is the loss of $730 million. For fiscal year 1984 the loss should drop to $300 million. And in fiscal year 1985 we are anticipating a $260 million loss. So we are not concerned with the amount of profit. We are not concerned either with the amount of loss, because we do expect to recover a lot of that in later years.

COMPETITORS' LOSS EXPERIENCE

Senator **KASTEN**. Do you know what the claims experience or the loss experience of our competitors is? In other words, are the French and the Japanese and others writing off their claims and loans in roughly the same proportion that we are?

Mr. **DRAPER**. Yes. I am sure they are hit fully as hard. Some are hit more. Germany has big loans in Poland and Austria has huge ones in Poland. We had only a $200 million exposure there.

By the way, we say we do not very often write off a loan in a country where a country has its guarantee on it because in those cases we feel that the country ultimately will repay, although sometimes they go through difficulties. We are having a little difficulty collecting loans made prior to 1950, prior to the revolution, in the PRC. They say it is Taiwan's problem. Taiwan says they don't have the equipment. I must say we do not anticipate recovering that very soon. But we do not write off loans that have, for example, the Mexican guarantee. They might be rescheduled.

Senator **Kasten**. But you have the country guarantee.

Mr. **Draper**. Yes. As an example——

Senator **Kasten**. But roughly speaking, your claims experience, your writeoff experience, is similar to the French and the others?

Mr. **Draper**. Yes. That is right. As I say, some countries would be much bigger; they would have more exposure in Poland, for example. We have much more exposure in Mexico, although it is amazing that in Britain, I think that Mexico is ECGD's third largest exposure.

MEDIUM-TERM LOAN PROGRAM COSTS

Senator **Kasten**. In response to my question about how you have responded to the congressional initiative to increase the funds, you said you have put this medium-term program in effect. There are some who have said that this program is uncompetitive, that it is uncompetitive because there is a financing fee, it is uncompetitive because there is a commitment fee, and you could add on the cost of the guarantee of the program it becomes, in the case of one person that talked to us, disadvantageous.

Could you just respond to that?

Mr. **Draper**. If you break it apart this way, our medium-term program uses the same interest rate that the direct credit program uses. So that where we charge 10 percent for a loan to India for a direct credit, we would charge also 10 percent for a medium-term loan to India. But on top of that, since we work through the banks—and it seems to us to be the only practical and logical way for reaching some of these smaller sales—and we do not want to compete with the banks, which is part of your mandate to us, where the banks typically will do financings that are less than 5 years, although that varies from bank to bank, but at least you are getting into their territory when you make loans in the under-5-year category.

So we will work through the banks, but if we make this medium-term program available, we do not allow them to charge more than 1 percent on top of our interest rate. So to that same India case, it would cost 11 percent going through the medium-term program.

Now, because that extra 1 percent each year over the 5 years is paid off in an average of 2½ years, it about offsets the 2 percent fee that we charged for direct credits.

The direct credit program has a 2-percent fee on the front end. That does not apply to the medium-term program. So when you amortize them, it is pretty close. It may be 30 basis points on the one loan, and the other might be 50 basis points. But those are pretty well offset, 50 basis points when you amortize over the 5 years, in other words.

Senator **Kasten**. Do not compare it to your other programs. Compare it to what other countries are doing.

Mr. **Draper**. Let me just tell you about the program so that you understand where the point is. The only reason that medium-terms costs more is if they want to buy insurance, or if the bank needs a guarantee to ship into a particular country—in certain countries they would and in certain countries they would not. So that insurance fee, which for the medium-term average might be 3 points, $3 out of $100 or 3 points on the front end, is the excess. That ends up being about the difference because the 1 percent that the banks add on seems to about offset the fact that we charge a fee on the direct credit program. So that is in fairly good balance in our portfolio.

We agree that where insurance is needed, it is not as competitive as if they were getting that same money out of our direct loan program, which is for over 5 years or generally more than $5 million.

Now, with regard to other countries, I can only say that undoubtedly some countries have better programs and some do not have programs as good. I would only say that we have started this this year; we have tried something that has never been done before. There has never been a medium term before in the Bank. And medium term is the area where every former chairman in the competitiveness report to you has always said medium term is the weakest in the Bank. So at least we took a step trying to get something going.

Senator **Kasten**. We might want to nudge you just a little bit more.

Mr. **Draper**. I understand. But it is a new program. We do not know yet; we are studying it. It has been in effect not quite 6 months, and we are planning to have more meetings on it and analyze it.

Jim Cruse, the head of our policy analysis division, just went out to Chicago to do a complete analysis to try to figure out if it is effective. He has come back with some thoughts on it. The banks seem to think it is a fairly competitive program, in first blush, from his trip. But we still have a lot to learn about it.

One of the big problems is we put this program in at a time when there really is not much business out there. There just is not much business taking place around the world. We know trade has dropped like a rock in this past year.

If we could offer the money at 5 percent interest, then it probably would not make any difference in the sale, because there are so many factors that go into making a purchase.

COMPARISON WITH OTHER COUNTRIES' PROGRAMS

Senator **Kasten**. When you said some countries have better programs and some countries have worse programs, could you give me some specific examples of the countries that have better programs, and what is the difference between their program that you characterize as a better one than ours? Is it the financing fee? Is it the commitment fee? What is it? How do you define the better one, and why is it better?

Mr. **Draper**. I did not say that they did; I just said that they might have, in answer to your question.

But I would say the medium term program would correspond to the longer term programs for many of the countries and they charge exactly the same interest rate that is charged for the OECD minimum. So that if you have a country like, let us say, France or Japan that does business medium term, they do it probably at the same rate as minimums. Therefore, it might be more competitive because we work through the banks. Many of those countries are socialist-type countries and do not even believe in the private banking system. They govern their own banks, and they really do not care too much who makes the money or whether anybody does.

We believe in a different system. We are not a socialized program. We believe in the banks and you want us to; you do not want us to compete with the commercial banks. That is the reason we have not put in a direct medium-term program before. We are just trying it to see how it works and see if we can work through the bank and make it work.

DEMAND FOR EXIMBANK RESOURCES IN FISCAL YEAR 1984

Senator **Kasten**. It is my understanding that the Department of Commerce and also the U.S. Special Trade Representative's office both did studies. It is my understanding that the studies were independent of each other on the projected demand for Eximbank resources for 1984.

Both of these studies ended up with a suggested demand as high as $6,500 million. Are you familiar with either one or the other of those studies, first of all?

Mr. **Draper**. For 1984?

Senator **Kasten**. Yes.

Mr. **Draper**. We did our own study and it came out that the demand totally from exports might get as high as $6,400 million. We have two different ways we do it. One is based on trends in capital goods exports, and based on that trend we showed nonaircraft and nonnuclear as being $2,500 million in 1983 and in fiscal year 1984 we projected it up to $3 billion. We projected aircraft being $1,100 million in 1983, projected up to $2 billion in 1984, and zero nuclear in 1983, which we put in at $2 billion for 1984, all of which totals $7 billion on the high side.

But then in view of business being so far down in the latter part of 1982, as it is early in 1983, we decided to take a look at it based on specific projects that were in the house. These were specific projects in the house in fiscal year 1983, which were $1,100 million in aircraft for example. We have a ranking system on our preliminary commitments, and we said 100 percent of our A-ranked preliminary commitments, those that are most liklely to come in, and then an additional $675 million of anticipated business that was not yet in that form but we expected to come in. Then we took the Commerce Department report of potential major projects, and we ended up with $425 million. We took an additional medium-term credit program of $300 million in cases that were under $5 million, for an additional $275 million total anyway, ending up including the $1,100 million for aircraft, was $3,675 million for 1983. And we scaled that up because we threw in $2 billion more for nuclear and

$900 million more for aircraft and a somewhat increase in these other areas, and got the $6,400 million.

Senator **Kasten**. All three of you are coming out roughly in the same neighborhood?

Mr. **Draper**. Yes, yes, that is why we wanted the protection of being able to have that coverage. And the President, I think, has always wanted the Eximbank to have enough money to do the job for American exporters. There has been never any doubt in my mind. The point was in 1982 and 1983 I never believed that we were going to be able to use it all because of the recession.

Senator **Kasten**. Well, I am hopeful that——

Mr. **Draper**. 1983, particularly, I mean in 1982, we had that nuclear case problem. We thought we would use it all.

Senator **Kasten**. I am hopeful that you will be able, No. 1, to get this medium-term program going, and No. 2, understand that the Congress is concerned about jobs and concerned about exports, as I know you are, and we want to work with you in terms of being competitive.

I do not know how the reauthorization is going to work. Maybe we can work together on these issues.

SUBMITTED QUESTIONS

There are some other questions that other members of the subcommittee may have, and we will submit those in writing to you.

Mr. **Draper**. I would be happy to answer those.

Senator **Kasten**. I look forward to working with you this year. I appreciate your testimony this morning.

[The following questions were not asked at the hearing, but were submitted for response subsequent to the hearing:]

QUESTIONS SUBMITTED BY SENATOR INOUYE

DIRECT LOAN REQUEST

SENATOR INOUYE: How does Eximbank determine the amount it will request for direct loan obligations?

Is the fact that Eximbank is requesting the same amount ($3.830 billion) for direct loan obligations in fiscal year 1984 as it originally requested for the current fiscal year to be regarded as a remarkable coincidence or a calculated affront to the Congress?

How do you explain the fact that the amount requested for fiscal year 1984 is the same as fiscal year 1983?

MR. DRAPER: In general, there is a relationship between the amount of Eximbank financing activity and the total amount of capital goods exports. Over the past few years, Eximbank has supported an average of about 11% of the "core" capital goods exports ("core" being capital goods exports excluding aircraft, automobiles, developed country and communist country sales). By analyzing the projected growth in capital goods exports, we can come up with a broad estimate of demand.

In addition to this estimate based on projected capital goods exports, Eximbank loan officers evaluate all cases currently in-house for conversion probability over the next two fiscal years. Potential projects identified by the Departments of State and Commerce are also evaluated for possible request for Eximbank assistance.

Thus, Eximbank's budget request is based on a careful estimate of the anticipated demand of the U.S. exporting community for financing assistance. The fact that the FY 1984 budget request is the same as the FY 1983 request is based upon the belief that market interest rates in the U.S. will remain below the Arrangement minimum rates. This being the case, the exporter should be able to use commercial financing with an Exim guarantee. This will keep demand for Exim financing to $3.8 billion, while increasing demand on our guarantee authority. We have provided for this increase in guarantee activity by requesting an increase in our total guarantee and insurance authority to $10 billion for FY 1984.

For FY 1983, the Bank currently estimates that direct loan authorizations will fall well below $3.8 billion. This drop in demand is due primarily to the worldwide recession, a strong U.S. dollar which makes U.S. goods more expensive, and lower market interest rates in the U.S.

FY 1983 DIRECT LOAN LEVEL

SENATOR INOUYE: How much did the Congress provide as a direct loan limitation for Eximbank in fiscal year 1983?

Did you regard this increase over your request as an expression of Congressional support for an aggressive expansion of Eximbank activities?

Did Eximbank adopt new, expansionary policies as a result of this Congressional encouragement?

How much of the direct loan authority do you expect to utilize in fiscal year 1983?

MR. DRAPER: The FY 1983 Continuing Resolution provides for a direct loan limitation of $4.4 billion, an increase of $600 million over our request of $3.8 billion. We did regard this increase by Congress as an expression for a more aggressive Eximbank.

The Bank has been more agressive. In January, 1983 the Bank lowered its interest rates to the minimum allowed under the Arrangement. These rates range from 10.0% to 12.4%, depending on the country involved. It would go against our agreements with our trading partners to lower rates any further. We are currently offering in most cases, a standard package of 65% cover with an option to go to 75% if the exporter provides 10% at the same interest rate as Exim, thus effectively providing 85% cover.

Our original Budget request of $3.8 billion for FY 1983 was arrived at after careful analysis of anticipated demand for Eximbank financing assistance. We felt this was the maximum amount needed to adequately do the job.

We now believe that we probably will not use our entire direct loan authority for FY 83. However, the lack of direct loan usage is not due to the lending policies of the Bank. Credit agencies in other countries have experienced a similar slowdown in financing assistance. Weak worldwide demand, together with a strong U.S. dollar and lower market interest rates in the U.S. are the main reasons for Eximbank not using it's entire direct loan authority.

FY 1984 POTENTIAL SUPPLEMENTAL REQUEST

SENATOR INOUYE: The appendix to the budget for fiscal year 1984 states: "The President will seek a supplemental authorization for Direct Loans of up to $2.67 billion for 1984 if necessary to meet subsidized foreign officially supported competition."

What, specifically, would trigger this request for a supplemental authorization?

MR. DRAPER: The budget request for FY 1984 of $3.8 billion is based on the assumption that interest rates in the U.S. will remain below the minimum Arrangement rates charged by Eximbank and foreign official export credit agencies. This means U.S. exporters will be able to compete using financing from commercial lending institutions with an Eximbank guarantee if necessary. If U.S. market interest rates begin to go above the Arrangement minimums, then direct Eximbank financing would be necessary to meet official foreign competition and demand for Eximbank assistance will increase. If this happens, we would ask for a supplemental to ensure that competitive financing is available to U.S. exporters.

Negotiations with our trading partners will continue in 1983 and 1984 to further reduce the subsidy of officially-supported export credit. Should these negotiations fail, or should the current Arrangement minimum rates not be adhered to by our trading partners, demand for Exim financing could increase, also triggering a request for a supplemental.

SENATOR INOUYE: Since the Eximbank has not significantly altered its policies and does not expect to fully utilize the amounts available for fiscal year 1983, why should the Congress give any credence to this hypothetical supplemental?

MR. DRAPER: The fact that we may not use our entire budgeted amount for FY 1983 is not due to the current policies of the Bank. Worldwide economic conditions have been poor for the past several years, reducing the demand for U.S. made products. In addition, the strength of the U.S. dollar in relation to most foreign currencies has made U.S. products more expensive.

The United States has begun to emerge from recession. The rest of the world should follow in 1984, increasing export activity worldwide. Eximbank fully expects to utilize its FY 1984 requested amount.

UTILIZATION OF RESOURCES

SENATOR INOUYE: You have made the assertion that it is only "the rather gloomy economic conditions world wide which have kept down demand for U.S. exports..."

Why do you follow this assertion with the weaker statement that this condition "may prevent us from fully utilizing our resources"?

It is not a fact that your current policies dictate a failure to fully utilize your resources?

MR. DRAPER: Because Eximbank's activity level depends upon worldwide economic conditions which are outside of the Bank's control, it is impossible for the Bank to assert that economic conditions will, without a doubt, prevent us from fully utilizing the Bank's resources. We must react to changes in the procurement plans of foreign buyers and to changes in the price and marketing plans of U.S. exporters. Thus, while at this time it appears likely that economic conditions will hold down the demand for U.S. exports which require Exim assistance, that situation could change. That is, foreign economic conditions may improve sufficiently to stimulate additional U.S. export possibilities or major projects may go forward despite depressed economic conditions.

In any event, Exim's policies are designed to maximize the accomplishment of long-term export facilitation objectives as approved and funded by Congress. For example, the objective of the direct loan program is to provide competitive financing support for U.S. exports which would otherwise be lost due to foreign official export credit competition. This policy objective is the basic long-run rational of Bank credit activity, irrespective of whether pursuing this policy objective fully utilizes our credit resources in a given fiscal year. The Bank certainly attempts to develop reasonable annual estimates of its budgetary needs; but if economic conditions beyond our control result in less demand for Exim resources, the Bank does not alter its policies simply to ensure that we utilize our budget.

EXPORT PROMOTION EFFORTS

SENATOR INOUYE: Is availability of competitive financing the only variable in Eximbank's programs of export promotion? Is it not possible for Eximbank to promote exports through programs which identify and educate potential exporters?

Would such activities increase the likelihood that Eximbank would fully utilize its direct loan authroity?

MR. DRAPER: While the provision of competitive financing is certainly a key activity, the Bank has devoted considerable resources to the provision of guarantee and insurance support as well. These latter programs are designed to overcome private lenders' unwillingness to take certain risks involved in foreign lending and to ensure that U.S. export flows are not disrupted in difficult economic times such as these. Further, such guarantee support can be used to obtain market-related fixed-rate financing on foreign currency loans, both of which may be attractive to certain foreign buyers. Exim also believes it has a role to play in educating U.S. firms about our programs and procedures. To this end, the Bank conducts a number of seminars and training sessions, as well as working on an individual basis with banks and exporters to explain programs and structure actual financing proposals. Such activities undoubtedly have increased the exporting community's awareness of our programs, but this is a very gradual process which results in small changes over time rather than dramatic jumps in activity in the short term. Thus, such activities are unlikely to have more than a marginal effect on our resource use in any given fiscal year.

CLAIMS - RESERVES

SENATOR INOUYE: What is the current ratio of the Eximbank's contingent liability to its reserves?

MR. DRAPER: As of September 30, 1982, Eximbank's contingent liability was $12,153.1 million and our reserves were $2,039.7 million for a ratio of 6.0 to 1.

SENATOR INOUYE: When you say Eximbank has been experiencing an increase in the number of claims, do you mean there has been an increase in defaults? Are these claims predominately (as measured by dollar amount) due to failures of governments to pay amounts due or are they related primarily to the private sector?

MR. DRAPER: The majority of the anticipated increase in claims is due to foreign governments experiencing balance-of-payments and debt service difficulties. These problems prevent the obligor from obtaining foreign exchange for payment of overseas debt. Since most of these transactions involve private borrowers who will continue in business, we expect to recover most of the claim payments as the balance of payments situation improves within each country.

SENATOR INOUYE: Of the $240 million in claims already received by Eximbank and FCIA, which are the ten largest? Please identify by country, dollar amount, and export supported by original credit.

MR. DRAPER: The $240 million in claims currently in-house at Eximbank and FCIA is made up of approximately 2,000 separate cases. There are some large claims, but one can see by the large number of cases involved that the individual claims are small.

The largest single claim is one for $20 million against Chrysler in Mexico. Identifying other large claims is difficult since in many cases several small claims may have been filed against a particular borrower, which in total add to a substantial amount. The totals for the countries involved are: Mexico - $163 million, Venezuela - $21 million, Guatemala - $7 million, Argentina - $38 million, Brazil - $1 million, and Zambia - $13 million.

ZAIRE

SENATOR INOUYE: Is Zaire currently in arrears on payments due to Eximbank?

What has Eximbank's experience been with Zaire over the past years?

Please provide, for the record, a ten-year chronology of Eximbank's experience with Zaire, noting, in particular the date and amount of arrearages to Eximbank. As part of this chronology, please indicate the date and amount of any rescheduled payments.

MR. DRAPER: Ten years ago Eximbank was open in Zaire for all its programs and approved a number of transactions including several large project loans. Since then Zaire has experienced severe economic and foreign exchange problems. As a result, Eximbank has entered into several Paris Club debt reschedulings, has seen major projects cancelled, has had to sharply curtail its activities in Zaire and has faced major funding problems relating to its major project in Zaire, the Inga-Shaba Transmission Line.

In the early 1970's Zaire's ability to service debt appeared to have grown substantially and its reserves of foreign exchange were sizable. During this time Eximbank approved a number of loan and guarantee transactions (as more fully outlined in the chronology) including $70.0 million for the purchase of aircraft, $238 million for the Inga-Shaba Transmission Line and $131 million for the SMTF Copper project. By 1974 the situation had reversed mostly as a result of a steep decline in copper prices. Since that time Zaire has generally been unable to service its debt and Eximbank has entered into four general debt reschedulings under guidelines established by the Paris Club.

The first rescheduling occurred in June, 1976 and related to unpaid maturities of both public and private debts of Zaire falling due during 1975 and 1976. Approximately $30 million was rescheduled. The second Zaire Paris Club rescheduling occurred in July and December, 1977 and related to 1977 maturities in the total amount of approximately $31 million. The third rescheduling exercise for Zaire occurred in December 1980 and granted debt relief in the amount of approximately $146.5 million covering maturities falling due during 1978, 1979 and 1980. The last Paris Club for Zaire occurred in July, 1981 and it related to maturities falling due in 1981 and 1982 in the total amount of approximately $87 million. Additional relatively short term relief was provided for amounts of previously rescheduled debt falling due during 1981 in the amount of approximately $16.5 million. Because certain conditions of the Paris Club minute relating to the International Monetary Fund were not complied with by Zaire, Zaire's 1982 maturities are not considered to have been rescheduled. These amount to approximately $43 million. To date no further debt rescheduling has occurred. Zaire continues to be in arrears for amounts due under both rescheduled and unrescheduled debt.

In addition to the problems of debt rescheduling and continuing arrears, Eximbank over the past 10 years has had to confront numerous problems relating to its major project in Zaire, the Inga Shaba Transmission Line. The project consists of a 1700 kilometer direct current transmission line from the Inga Hydroelectric Project in western Zaire to Kolwezi in the heart of Zaire's copper belt in the East. Financing for the project was finally approved by Eximbank on November 21, 1973. It consisted of a loan and financial guarantee of a loan by a consortium of banks each in the amount of $102,240,000 and a local cost guarantee of $34,080,000.

The project is now complete and although presently shut down due to Zaire's lack of foreign exchange, has operated successfully. The project's completion was slower than expected. Logistical problems were more severe than expected, supplies of cement, fuel and other essentials were interrupted and the project was slowed and damaged during the 1978 invasion of Zaire by rebels from Angola. Each of these factors as well as others delayed the project and resulted in two requests for additional financing for the project. Concluding that a completed and functioning project offered the greatest liklihood for ultimate repayment of its original loans, Eximbank responded favorably to those requests. The first increase in the financing was approved on April 6, 1976 and consisted of an additional credit and a guarantee each in the amount of $34,263,000. The second increase in the financing was approved on June 7, 1979 and consisted of an additional credit and a guarantee each in the amount of $46,495,000. Due to a special arrangement with Zaire providing for debt service payments to be met directly from foreign exchange arising from the sale of copper, payments on the additional credits and guarantees are current. Payments on the original credit and guarantees either have been rescheduled under the Paris Club or are in arrears.

Eximbank's exposure in Zaire as of February 28, 1983 is approximately $587.2 million. There are no outstanding Preliminary Commitments or offers of financing by Eximbank for Zaire and no pending loan applications. Arrearages of 90 days or more as of February 28, 1983 were principal of $61.6 million and interest of $25.3 million for a total of $86.9 million.

Arrearage figures from FY 1975 through February 28, 1983 follow the chronological list of authorizations.

Chronology of Direct Credits, Financial Guarantees and Refunding Credits Authorized in Zaire from January 1, 1973 to March 31, 1983:

1. Credit No.: 4163
   Date Authorized: January 24, 1973
   Amount: $1,208,000
   Amount of Related Financial Guarantee: $1,208,000
   Borrower: Societe Immobliere Kinoise
   Guarantor: Republic of Zaire
   Purpose: Apartment Complex

2. Credit No.: 4400
   Date Authorized: February 28, 1973
   Amount: $2,970,000
   Amount of Related Financial Guarantee: $2,970,000
   Borrower: Office des Routes
   Guarantor: Republic of Zaire
   Purpose: Road Building Equipment

3. Credit No.: 10681
   Date Authorized: April 18, 1973
   Amount: $11,000
   Amount of Related Financial Guarantee: $11,000
   Borrower: Banque Commerciale Zairoise
   Purpose: Machine Tools

4. Credit No.: 10683
   Date Authorized: April 18, 1973
   Amount: $28,000
   Amount of Related Financial Guarantee: $28,000
   Borrower: Banque Commerciale Zairoise
   Purpose: Machine Tools

5. Credit No.: 10824
   Date Authorized: May 16, 1973
   Amount: $3,000
   Amount of Related Financial Guarantee: $3,000
   Borrower: Banque Commerciale Zairoise
   Purpose: 20 Trailers

6. Credit No.: 10843
   Date Authorized: May 18, 1973
   Amount: $6,000
   Amount of Related Financial Guarantee: $6,000
   Borrower: Banque Commerciale Zairoise
   Purpose: One Trailer with Accessories

7. Credit No.: 4585
   Date Authorized: June 21, 1973
   Amount: $34,762,000

Amount of Related Financial Guarantee: $34,762,000
Borrower: Air Zaire
Guarantor: Republic of Zaire
Purpose: 3 Boeing 737 Aircraft and 2 DC 10 Aircraft

8. Credit No.: 11064
Date Authorized: July 5, 1973
Amount: $31,000
Amount of Related Financiale Guarantee: $31,000
Borrower: Banque Commerciale Zairoise
Purpose: Hydrocrane Bucyrus-Erie 360-C

9. Credit No.: 11181
Date Authorized: July 26, 1973
Amount: $7,000
Amount of Related Financiale Guarantee: $7,000
Borrower: Banque Commerciale Zairoise
Purpose: Spare Parts

10. Credit No.: 11260
Date Authorized: August 8, 1973
Amount: $9,000
Amount of Related Financial Guarantee: $9,000
Borrower: Banque Commerciale Zairoise
Purpose: 2 Trucks

11. Credit No.: 4733
Date Authorized: August 30, 1973
Amount: $1,935,000
Amount of Related Financial Guarantee: $1,935,000
Borrower: Chemis de Fer K.D.L.
Guarantor: Republic of Zaire
Purpose: 12 Locomotives

12. Credit No.: 11520
Date Authorized: October 25, 1973
Amount: $10,000
Amount of Related Financial Guarantee: $10,000
Borrower: Banque Commerciale Zairoise
Purpose: Souldering Equipment

13. Credit No.: 11522
Date Authorized: October 25, 1973
Amount: $11,000
Amount of Related Financial Guarantee: $11,000
Borrower: Banque Commerciale Zairoise
Purpose: 20 Motors and 75 Harvesting Machines

14. Credit No.: 11524
Date Authorized: October 25, 1973
Amount: $20,000
Amount of Related Financial Guarantee: $20,000
Borrower: Banque Commerciale Zairoise
Purpose: One Crane and Accessories

15. Credit No.: 4684
Date Authorized: November 21, 1973
Amount: $102,240,000
Amount of Related Financial Guarantee: $102,240,000
Amount of Related Local Cost Financial Guarantee: $34,080,000
Borrower: SNEL
Guarantor: Republic of Zaire
Purpose: Inga Shaba Transmission Line

16. Credit No.: 11690
Date Authorized: December 5, 1973
Amount: $29,000
Amount of Related Financial Guarantee: $29,000
Borrower: Banque Commerciale Zairoise
Purpose: D7 Tractor and Accessories

17. Credit No.: 4539
Date Authorized: December 10, 1973
Amount: $6,300,000
Amount of Related Financial Guarantee: $6,300,000
Amount of Related Local Cost Financial Guarantee: $2,100,000
Borrower: SNEL
Guarantor: Republic of Zaire
Purpose: Generating Equipment for Inga II Hydro.

18. Credit No.: 5325
Date Authorized: March 28, 1974
Amount: $525,000
Amount of Related Financial Guarantee: $525,000
Borrower: Republic of Zaire
Purpose: 2 Jet Aircraft
Cancelled: March 4, 1976

19. Credit No.: 5313
Date Authorized: May 2, 1974
Amount: $1,890,000
Amount of Related Financial Guarantee: $1,890,000
Borrower: Onatra
Guarantor: Republic of Ziare
Purpose: 10 Locomotives
Cancelled: March 5, 1976

20. Credit No.: 5536
Date Authorized: August 15, 1974
Amount: $56,250,000
Amount of Related Financial Guarantee: $56,250,000
Borrower: Societe Miniere de Tenke-Fun
Guarantor: Republic of Zaire
Purpose: Copper/Cobalt Mining Project
Cancelled: November 8, 1976

21. Credit No.: 12574
Date Authorized: August 15, 1974
Amount: $87,000
Amount of Related Financial Guarantee: $87,000
Borrower: Banque Commerciale Zairoise
Purpose: One Piper Chieftain

22. Credit No.: 12583
Date Authorized: August 15, 1974
Amount: $15,000
Borrower: Banque Commerciale Zairoise
Purpose: Pneumatic Tire Roller

23. Credit No.: 13429
Date Authorized: May 5, 1975
Amount: $65,000
Amount of Related Financial Guarantee: $65,000
Borrower: Banque Commerciale Zairoise
Purpose: Harvesting Machines

24. Credit No.: 4161-A
Date Authorized: September 25, 1975
Amount: $588,000
Amount of Related Financial Guarantee: $588,000
Borrower: Grand Hotels du Zaire
Guarantor: Republic of Zaire
Purpose: Hotel Expansion
Cancelled: January 12, 1976

25. Credit No.: 4684-A
Date Authorized: April 6, 1976
Amount: $34,263,000
Amount of Related Financial Guarantee: $34,263,000
Borrower: SNEL
Guarantor: Republic of Zaire
Purpose: Inga-Shaba Cost Overrun

26. Credit No.: 6305
Date Authorized: June 23, 1976
Amount: $9,990,000
Amount of Related Financial Guarantee: $9,990,000
Borrower: Gecamines
Guarantor: Republic of Zaire
Purpose: Copper Mining Equipment
Cancelled: July 31, 1978

27. Credit No.: R-28
Date Authorized: February 3, 1977
Amount: Approximately $30,000,000
Borrower: Republic of Zaire
Purpose: Reschedule 1975-1976 Maturities

28. Credit No.: R-28-A
Date Authorized: September 13, 1978
Amount: Approximately $31,000,000
Borrower: Republic of Zaire
Purpose: Reschedule 1977 Maturities

29. Credit No.: 4684-B
Date Authorized: June 7, 1979
Amount: $46,495,000
Amount of Related Financial Guarantee: $46,495,000
Borrower: SNEL
Guarantor: Republic of Zaire
Purpose: Inga-Shaba Cost Overrun

30. Credit No.: R-32
    Date Authorized: February 14, 1980
    Amount: Approximately $146,500,000
    Borrower: Republic of Zaire
    Purpose: Reschedule 1978, 1979-1980 Maturities

31. Credit No.: R-40
    Date Authorized: August 4, 1981
    Amount: Approximately $103,500,000
    Borrower: Republic of Zaire
    Purpose: Reschedule 1981-1982 Maturities and some Previously Rescheduled Debt.

EXPORT-IMPORT BANK OF THE UNITED STATES

Zaire Arrearages of 90 days or More
FY 1975 thru 2/28/83
($ Millions)

As of End of FY	Principal	Interest	Total
FY 1975	$ -0-	$ -0-	$ -0-
FY 1976	2.2	6.5	8.7
FY 1977	2.8	4.6	7.4
FY 1978	2.6	5.0	7.6
FY 1979	16.8	32.8	49.6
FY 1980	2.7	5.5	8.2
FY 1981	15.0	11.4	26.4
FY 1982	39.4	18.9	58.3
FY 1983 as of February 28, 1983			
Credit No. 4539	$ 1.2	$ .3	$ 1.5
Credit No. 4585	6.4	.9	7.3
Credit No. 4684	27.1	6.1	33.2
Credit No. 4733	.4	.1	.5
Rescheduling R-28	12.1	3.1	15.2
Rescheduling R-32	6.7	5.8	12.5
Rescheduling R-40	7.7	9.0	16.7
	$61.6	$25.3	$86.9

MEXICO

SENATOR INOUYE: You are projecting an additional $500 million in claims, concentrated largely in Mexico.

How, then, can you justify continued Eximbank participation in export credit financing to Mexico?

MR. DRAPER: Eximbank views Mexico as having a temporary liquidity rather than a long-term solvency problem and so we expect, and are taking the steps necessary to assure, recoveries of claim payments arising from earlier transactions. As regards new business, if credit is not made available to Mexico, that country will be unable to buy U.S. goods and services, which could weaken the U.S. and world recovery. After assuring that Mexico, with IMF support, is undertaking a serious domestic program to restore medium term economic viability and reliable external debt service, international and private financial institutions are providing major financing assistance to Mexico. Eximbank believes it important that it participate in this support which provides a "credit bridge" across which trade can flow while Mexico proceeds with its recovery program. In authorizing new credit support for export sales to Mexico, the Board must determine that the transactions offer reasonable assurance, or sufficient likelihood, of repayment.

SENATOR INOUYE: What economic and financial factors did the Board consider in reaching the determination that Mexico offers a "sufficient likelihood of repayment"?

MR. DRAPER: In arriving at the determination that Eximbank undertake new business in Mexico, Eximbank's Board considered that measures were underway to restore Mexican liquidity and set the stage for sustainable economic growth. The linchpins of this effort were the IMF's three year, $3.9 billion financing arrangement and the new Mexican government's acceptance and implementation of an austerity program. Key elements of the latter program include a reduction in the overall public sector deficit from an estimated 16.5% of GDP in 1982 to 8.5% in 1983 and 3.5% in 1985 and restrictions on Bank of Mexico credit operations. IMF support and the government's austerity program in turn served as the basis for $5 billion in new assistance from Mexico's commercial bank creditors and a restructuring of the $20 billion of payments due these creditors during August 1982 - December 31, 1984.

Important to the Board were the facts that Mexico had committed itself to the IMF to work off some $600 million of arrears in 1983 and to develop prior to January 1, 1984, a program for the payment of all remaining balances; it has also agreed to avoid new arrears and to cap net additional borrowing by the public sector at $5 billion in 1983. Eximbank's Board further believed that these measures and commitments would do much to restore confidence in the economy and foster the resumption of normal trade and project credits and investment inflows.

Further, the emerging upturn in the world economy and especially that of the United States were seen as bolstering Mexico's longer term prospects based on the continuing underlying strengths of the economy - the oil reserves, the skilled and industrious labor force, the diversified industrial base and the substantial infrastructure. For these various reasons and on the assumptions that the international financial "safety net" will continue supportive as the occasion may arise, that petroleum markets and interest rates will stabilize and that planned austerity measures will not generate undue political and social unrest, Eximbank's Board concluded that Mexico offers a reasonable assurance of repayment.

REPRESENTATION COSTS

SENATOR INOUYE: How much of your budget is expended on entertainment or representation?

Was the amount provided for these purposes in fiscal year 1982 fully expended?

Please provide a listing of all receptions, dinners, or similar functions funded by your organization in fiscal year 1982 and in the first quarter of fiscal year 1983. In this listing, please provide the total cost associated with each function and a list of those attending.

MR. DRAPER: In FY 1982 Eximbank had a limitation on entertainment expenses of $16,000 of which $4,466.60 was expended. The $4,466.60 represents .03% of the total amount spent on administrative expense.

Following is a list of items charged to entertainment expenses for FY 1982 and the first quarter of FY 1983.

FY 1982

Eximbank Official	Date of Entertainment	Description of Function	Amount
Draper, William	10- 7-81	China Loan Agree. (Signing)	$ 12.20
Glick, Warren	10-22-81	Luncheon-Mr. Martin (Citibank Argentina)	27.43
Portal, Jose	10-29-81	FCIA Claims Luncheon	29.05
Draper, William	10-31-81	Kitchen Supplies	46.68
Albright, Raymond	11- 5-81	Luncheon-Mr. Morrison (Laker Air)	101.23
Albright, Raymond	11- 9-81	Luncheon-Yugoslavia Delegation	69.05
Bierman, John	11-16-81	Dinner-IBRD/IMP Delegation	436.97
Draper, William	11-20-81	Kitchen Supplies	22.66
Kahliff, Margaret	12- 8-81	Luncheon-Program Committee A.B.A.	28.35
Keane, James	12-11-81	Luncheon-Mr. Robayo (CARBOCOL)	37.00
Vatter, Peter	12-17-81	Claims Seminar Refreshments	37.00
Duff, John	1- 8-82	Luncheon-Export Development Corp.	115.50
Kahliff, Margaret	1-28-82	Luncheon-William Geimer	30.00
Glick, Warren	2- 5-82	Luncheon-Messrs. Boylan & Alexander (FCIA)	78.10
Christian, C.	2- 7-82	Dinner-Laker Air Representative	132.21
Chapman, Ted	2-15-82	Dinner-OECD Delegation	819.49
Draper, William	3-10-82	Luncheon-Mr. Wallen (OECD)	63.05
Glick, Warren	3-16-82	Luncheon-Laker Air Representative	53.90
Kahliff, Margaret	3-17-82	Luncheon-Mr. Pace (Rohner Gehrig)	38.00
Draper, William	4-28-82	Luncheon-13 European Bankers	126.75
Glick, Warren	4-28-82	Luncheon-American Embassy Officials to Japan	130.00
Glick, Warren	5- 5-82	Luncheon-Japanese L/T Credit Bank Officials	106.86
Draper, William	5-12-82	Kitchen Supplies	5.05
Draper, William	5-15-82	Luncheon-Mr. Anderson (BAFT), Mr. Neveja (Harris Trust)	40.52
Lord, Charles	5-17-82	Luncheon-Robert Zaines (Zaines Consulting, Inc.)	40.45
Draper, William	5-26-82	Kitchen Supplies	19.24
Draper, William	6- 9-82	Kitchen Supplies	27.51
Draper, William	6-28-82	Kitchen Supplies	26.23
Bogdanoff, George	6-28-82	Luncheon-FCIA Representatives	32.08

Eximbank Official	Date of Entertainment	Description of Function	Amount
FY 1982-continued			
Draper, William	7- 1-82	Luncheon-Stan Miller (Harvard Business School)	$ 36.56
Draper, William	7- 8-82	Luncheon-Marrie Spaeth (FTC)	44.65
Williams, Joe	7- 8-82	Dinner-John Hanson (FCIA)	70.00
Lord, Charles	7- 9-82	Luncheon-Morgan Stanley Executives	152.49
Malloy, Patrick	7-16-82	Luncheon-Mr. Wilkins (Bethlehem Steel)	32.06
Kahliff, Margaret	7-20-82	Luncheon-Mrs. Channault (President's Export Council)	25.00
Draper, William	7-20-82	Luncheon-Jane Seaberry (Washington Post)	50.92
Draper, William	7-20-82	Kitchen Supplies	4.77
Glick, Warren	7-23-82	Luncheon-Mr. Franck (Alfa Debt)	109.07
Draper, William	7-28-82	Kitchen Supplies	447.00
Draper, William	7-30-82	Luncheon-Rita Rodriguez (University of Illinois)	93.99
Draper, William	8- 6-82	Kitchen Supplies	62.10
Draper, William	8- 9-82	Luncheon-Mike Stone (Ambassador to Egypt)	81.05
Draper, William	8-10-82	Luncheon-6 Eximbank Interns	30.29
Draper, William	8-13-82	Kitchen Supplies	111.00
Lord, Charles	8-26-82	Luncheon-B. Goncher (World Bank)	40.40
Draper, William	8-27-82	Kitchen Supplies	19.45
Williams, Joe	9- 1-82	Dinner-Mr. Keenan (FCIA)	89.00
Lord, Charles	9-13-82	Lunch-Mr. Waite (IBM Corp.)	46.74
Bogdanoff, George	9-30-82	Luncheon-ECGD, TFI-Valgos & FCIA	187.50
Total FY 1982			$4,466.60
FY 1983			
Draper, William	10-20-82	Luncheon- Phil Krieger	$ 24.62
Glick, Warren	10-22-82	Luncheon- Sierra Leone Credits	189.87
Draper, William	10-26-82	Kitchen Supplies	40.58
Draper, William	11- 2-82	Kitchen Supplies	40.64
Draper, William	11- 8-82	Dinner- Berne Union Members	371.79
Draper, William	11- 9-82	Kitchen Supplies	12.97
Draper, William	11-15-82	Luncheon- Mr. Thomas (Hartford Fire)	55.57
Draper, William	11-16-82	Luncheon- FCIA Representatives	66.29
Draper, William	11-19-82	Luncheon- Mr. Lorsignol (Bk. de Neuflixe)	35.75
Draper, William	12- 1-82	Luncheon- Johannas Ackerman	42.77
Draper, William	12- 3-82	Kitchen Supplies	8.65
Draper, William	12-10-82	Kitchen Supplies	40.62
Pilzer, Art	12-17-82	E.M.C. Refreshments	19.73
Glick, Warren	12-22-82	Luncheon- Export Credit Agencies	132.05
Total thru 12/31/82			$1,081.90

SUBCOMMITTEE RECESS

Senator **Kasten**. The hearing is adjourned.

[Whereupon, at 11:15 a.m., Tuesday, March 8, the subcommittee was recessed, to reconvene at the call of the Chair.]

FOREIGN ASSISTANCE AND RELATED PROGRAMS APPROPRIATIONS FOR FISCAL YEAR 1984

WEDNESDAY, MARCH 9, 1983

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, D.C.

The subcommittee met at 10 a.m., in room SD-192, Dirksen Senate Office Building, Hon. Robert W. Kasten, Jr. (chairman), presiding.

Present: Senators Kasten and Rudman.

DEPARTMENT OF THE TREASURY

SECRETARY OF THE TREASURY

STATEMENT OF HON. DONALD T. REGAN, SECRETARY OF THE TREASURY

OPENING STATEMENT OF SENATOR KASTEN

Senator KASTEN. The subcommittee will come to order.

Mr. Secretary, we are pleased to have you today to give us an overview of the U.S. contributions to the Multilateral Development Banks [MDB's].

On Monday we received a supplemental request from the administration for the International Monetary Fund [IMF]. As you know, our subcommittee will be holding special hearings on this particular request.

I will ask at that time for you or one of your colleagues to come back and speak to us in detail on the IMF. There is still a question as to what the authorizing committees are going to do, and what, if any, changes they may want to make. We have decided to wait until the authorizers have put the framework together, and then we will look at the funding. We may need your help and assistance at that time.

I think it is only fair for me to include with this opening statement reference to the supplemental request for the International Development Association [IDA]. As you know, this subcommittee, in consideration of the fiscal year 1983 bill, provided $800 million. It was my motion that raised it to $800 million. An amendment was offered on the floor of the Senate to cut $100 million. That amendment passed which reduced the amount to $700 million with strong bipartisan support.

Inasmuch as we were unsuccessful in getting the larger amount, I do not think there is much of a chance of getting the supplemental request, especially at the level you are asking for. Frankly, given the importance of the IMF battle, I am hopeful that we are going to be able to concentrate on the IMF quota increase, and possibly put the IDA matter on hold or at least part of the IDA matter on hold until we are able to deal with the IMF increase.

I know you realize foreign assistance in general is difficult to get through Congress. Different people have been before this committee, and various Committee members have said things are changing in Pennsylvania or that it is more difficult in Louisiana or wherever it might be to get the support for foreign assistance dollars that we need.

I think that the multilateral assistance programs are even more difficult than the bilateral programs to get through where we in effect are working and helping our friends.

Mr. Secretary, we have your full statement which will be made a part of the record. I would ask that you consider summarizing your statement, which will leave us time for questions.

MDB FUNDING REQUEST

Secretary REGAN. I do have a summary, and then I will be pleased to answer your questions.

I am pleased to have this opportunity to appear before you today to explain the administration's funding request for the multilateral development banks and to ask for your prompt and favorable consideration of this request.

We are all well aware of the fact that the international financial and economic system is experiencing very serious strains. The difficulties we face are without precedent in the postwar era and pose a very serious threat to the efforts being made, both domestically and internationally, to restore growth and vitality to the world economy.

I understand that the Appropriations Committee will be considering separately legislation providing for U.S. participation in an increase in IMF resources. The IMF is the centerpiece of a comprehensive strategy to deal with current strains in the international financial system in the orderly manner essential for U.S. and global economic recovery.

The IMF must have adequate resources to fulfill its vital responsibilities for providing sound economic adjustment, and I urge your prompt approval of this vital legislation.

U.S. COMMITMENT TO DEVELOPING COUNTRIES

Global conditions pose particularly severe problems for the countries of the developing world. The United States has a long tradition of cooperating with developing countries, through both bilateral and multilateral channels, to assist them in accelerating the development process.

We have done so both for altruistic reasons, and in pursuit of our own interests. If the developing countries, especially the poorest ones, are to continue to have an opportunity to participate fully in international growth, it is clear that immense challenges will have to be met during the remainder of this decade.

The most important contribution the United States can make to world development is to pursue sound economic policies at home. A vigorous U.S. economy firmly set on a path of sustained and noninflationary economic growth will be of immeasurable help to the global economy.

We have set out a comprehensive course to domestic economic recovery and will continue to work closely with the Congress to assure it is followed.

At the same time, we must recognize that global economic conditions have a direct impact on the health of the U.S. economy, and that the international economic environment can be an important force for either enhancing or thwarting our domestic recovery efforts.

It is thus in our own economic self-interest to encourage sound and sustainable growth in the developing world. A prospering and economically stable developing world also serves important U.S. political, strategic, and humanitarian interests.

MDB CONTRIBUTIONS TO GROWTH AND DEVELOPMENT

It is the view of the administration that the multilateral development banks do contribute effectively to economic growth and development, and that active U.S. support for these institutions is critical to our security and economic interests. Those interests include:

NATIONAL SECURITY INTERESTS

At a time when global economic difficulties are exposing nearly all of the poorer developing countries to serious threats of political, economic, and social instability, the MDB's are capable of providing a valuable contribution to our national security and other foreign policy objectives in each of the major regions of the world and in countries of particular interest to us.

One need only scan the list of the largest MDB borrowers—Mexico, Brazil, Argentina, Indonesia, Korea, Pakistan, Thailand, the Philippines, Turkey, and Egypt—to recognize that the MDB's are lending to countries of great importance to us. The IDB is especially important for our relations with Latin America and the Caribbean.

The MDB's are not providing any assistance to such hostile nations as Vietnam, Cuba, Iran, Afghanistan, and Cambodia.

There is also the growing importance of our dependence on critical raw materials from the developing world. The United States, for example, depends upon the developing countries for all of its tin imports, 90 percent of its bauxite, and 76 percent of its cobalt.

The MDB's have made loans to key producing countries such as Bolivia, Zambia, Zaire, and Indonesia. We and the rest of the world have a vital stake in insuring the stability of LDC economies which produce critical raw materials and in safeguarding access to these supplies.

THE HEALTH OF INTERNATIONAL ECONOMIC SYSTEM

In U.S. fiscal year 1982, MDB loan commitments totaled $16,800,000. This made the MDB's by far the largest official source of external capital for the developing world. As such, they can contribute in a major way to economic growth and stability in developing countries, and to the expansion of trade between the developing and the industrialized nations.

By improving their policy advice, preparing development projects based upon sound economic criteria, and insisting upon rational economic policies within recipient countries, the MDB's can continue to be an important respected force in the international economy—one which promotes the open, competitive, market-oriented economic system.

The United States continues to urge these institutions to strengthen their role in advocating an open trading system, realistic foreign exchange rates, the use of markets to help determine resource allocations, sound pricing policies, cost recovery in investment projects, reliance upon the private sector, and sensible fiscal and monetary policies.

With such efforts the impact of the MDB's can result in a significant contribution to the health of the world economy.

DIRECT U.S. ECONOMIC BENEFITS

There are direct benefits to the United States in increased exports to developing countries which borrow from the MDB's. Generally, non-OPEC developing countries account for over 25 percent of U.S. manufactured exports. In a time of high unemployment, these markets are even more important for American workers.

In addition, the relatively limited U.S. paid-in subscriptions and contributions to the soft loan windows can result in larger expenditures on U.S. goods and services.

Currently, procurement of American goods and services for projects assisted by the MDB's is running at approximately $1,200,000,000 per year, benefitting virtually all regions of the United States.

At the same time, U.S. budgetary outlays for U.S. paid-in subscriptions and contributions to the soft loan windows have been approximately $1 billion per year. Thus, there is a net positive return on U.S. contributions just in terms of procurement, and we are working to improve on that record.

In terms of description of goods sold, the major categories were mechanical equipment, consultant services, chemicals, electrical equipment, school equipment, and medical equipment and supplies.

We are working to improve the effectiveness of the MDB's so as to maximize their contribution to overall economic growth in the developing countries and the U.S. interests.

At the same time, we are conscious of budgetary concerns, and are trying to insure that the MDB's make the most efficient use of their resources, and that U.S. interests are advanced at the lowest possible costs.

By improving their efforts in such areas as project preparation, economic analysis and technical assistance, the MDB's can fulfill a unique role in promoting the sound economic policies and market-oriented institutions necessary to better integrate the developing countries into the international economic system.

FISCAL YEAR 1984 APPROPRIATION REQUEST

I am submitting for the record a breakdown of the fiscal year 1984 request for each institution.

The administration's request for fiscal year 1984 calls for $1,618.4 million in budget authority and $2,862.7 million in callable capital under program limitations for subscriptions and contributions to the multilateral development banks.

BUDGETARY IMPLICATIONS

The fiscal year 1984 request for the MDB's represents an increase of $326,400,000 in budget authority, and $502 million under program limitations over the fiscal year 1983 appropriation—this does not include the fiscal year 1983 supplemental request of $245 million for IDA.

The bulk of the increase—$395 million in budget authority—over last year's appropriation comes as a result of meeting the shortfall in our commitments to IDA VI.

We believe funding at this level is essential to meet our existing international commitments from previous replenishments and also to meet the funding requirements for new replenishments in the regional development banks which this administration has negotiated.

For more than a year, the administration has been engaged in negotiations to replenish the hard and soft loan windows of the Inter-American and the Asian Development Banks. Throughout these negotiations we have carefully considered the views expressed by the Congress and have tried to achieve the major recommendations of our assessment.

The new replenishments represent important further steps toward implementing those recommendations.

Specifically, the new replenishments are consistent with the assessment's recommendations to reduce overall contributions to the soft loan windows and the proportion of capital subscriptions paid in, while still providing assistance to the poorest developing countries.

While the substantial reduction in funding for the soft loan windows will limit concessional lending programs, we have managed carefully to concentrate funding on the poorest regions and countries.

The replenishment for the IDB's Fund for Special Operations will be about $1 billion less than the previous replenishment, but Latin America has the highest per capita GNP of the developing regions of the world.

By contrast, the replenishments for the Asian Development Fund and African Development Fund will be about $1 billion and $200 million larger, respectively.

We are also urging that the MDB's use their resources more effectively, so that the poorest countries receive the benefits of these programs. We have been working with the banks to insure: (1) Greater selectivity and policy conditionality within projects and sector programs; (2) firm implementation of graduation from hard loan windows and maturation from soft windows. Effective use of these policies should permit lower funding levels and at the same time insure that scarce resources are concentrated on those countries which can best employ them, and which are in the greatest need.

The assessment of U.S. participation in the MDB's recommended that the United States phase down and eventually phase out paid-in capital in future MDB replenishments. The proposed levels in the new replenishments represent a declining reliance on paid-in capital as the institutions have matured financially.

It is a balanced compromise that reflects our budgetary situation and the views of both the Congress and the capital markets.

In the case of the IDB, the new level of 4.5 percent paid in will result in annual budgetary savings of almost $40 million per year, or $160 million over the 4-year period of the replenishment, compared with the 7.5 percent paid-in level of the last replenishment.

The reduced level of paid in was accompanied by an increase in the convertible currency subscriptions of the borrowing member countries. The borrowing member countries will now provide 100 percent of their paid-in capital in convertible currencies as compared to 66 percent in the last replenishment.

With regard to the Asian Development Bank, ADB management initially proposed maintaining the 10 percent existing level of paid-in for the upcoming General Capital Increase [GCI]. While discussions about the size and financing of the GCI are still ongoing, we expect the level of paid-in capital eventually agreed upon will be approximately 5 percent.

By reducing the proportion of paid-in capital, we reduce the budgetary cost to U.S. taxpayers while maintaining the financial soundness of these institutions.

INTERNATIONAL DEVELOPMENT ASSOCIATION [IDA] SUPPLEMENTAL

In addition to the fiscal year 1984 request, the stretch out of our contributions to IDA VI necessitates a $245 million fiscal year 1983 supplemental request.

The United States was expected to provide $1.08 billion annually for 3 years to IDA under the original internationally negotiated funding arrangement. However, U.S. contributions have been far short of this expectation because our contributions were subsequently stretched over 4 years.

We provided only $500 million in fiscal year 1981 and $700 million a year in fiscal years 1982 and 1983. Other donors took up much of the slack by agreeing to release their second and third installments to IDA, and to provide an additional $2 billion to sustain the lending in fiscal year 1984.

The $245 million in the fiscal year 1983 supplemental is a critical component in the President's foreign assistance program. The United States needs to meet the existing schedule of contributions in order to demonstrate both our ability to live up to international funding commitments and our desire to work constructively with other members to enhance the impact of IDA's operations.

IDA is a significant element of economic cooperation with our allies and is the largest single source of concessional assistance. With underdeveloped resource bases, small productive capacities, and low per capita incomes, most IDA recipients have very limited access to external resources from private sources, and they have also been hardest hit by the global recession.

Consequently, IDA operations are very important to these countries, many of which—such as Kenya, Sri Lanka, Pakistan, and Sudan—are of strategic and economic importance to the United States.

IDA operations are also important to U.S. humanitarian interests in that more than 80 percent of IDA's commitments have been to countries that in 1980 had per capita incomes of $410 or less.

In addition, at our urging, IDA has begun to focus on the difficult development problems of Sub-Saharan Africa.

Full funding of the administration's request for IDA is necessary to avoid further disruptions in IDA's lending operations. It is also important to demonstrate the U.S. longstanding commitment to work constructively with our allies to assure that the poorest countries are provided an opportunity to participate in the process of growth and development.

In conclusion, MDB lending for economically sound projects is an important element of the international community's efforts to spur sustainable economic growth and greater stability in the developing world. Such growth is an important element in the health of the world economy, and also has considerable impact on the U.S. economy.

Continued emphasis on the MDB's to channel a substantial proportion of U.S. development assistance is also fully consistent with the need to insure cost effectiveness and to avoid unnecessary budget outlays.

Attractive features of the MDB's include cost sharing and the leveraging of U.S. contributions through MDB borrowing in world capital markets.

We strongly urge your support for this program. It represents the minimum amount of financial support required to safeguard the U.S. leadership role in these institutions.

Thank you very much.

[The statement of Mr. Regan follows:]

PREPARED STATEMENT OF HON. DONALD T. REGAN

SECRETARY OF THE TREASURY

Mr. Chairman, I am pleased to have this opportunity to appear before you today to explain the Administration's funding request for the multilateral development banks and to ask for your prompt and favorable consideration of this request.

We are all well aware of the fact that the international financial and economic system is experiencing very serious strains. The difficulties we face are without precedent in the postwar era and pose a very serious threat to the efforts being made, both domestically and internationally, to restore growth and vitality to the world economy.

I understand that the Appropriations Committee will be considering separately legislation providing for U.S. participation in an increase in IMF resources. The IMF is the centerpiece of a comprehensive strategy to deal with current strains in the international financial system in the orderly manner essential for U.S. and global economic recovery. The IMF must have adequate resources to fulfill its vital responsibilities for promoting sound economic adjustment and I urge your prompt approval of this vital legislation.

Global conditions pose particularly severe problems for the countries of the developing world. The United States has a long tradition of cooperating with developing countries, through both bilateral and multilateral channels, to assist them in accelerating the development process. We have done so both for altruistic reasons, and in pursuit of our own interests. If the developing countries, especially the poorest ones, are to continue to have an opportunity to participate fully in international growth, it is clear that immense challenges will have to be met during the remainder of this decade.

The most important contribution the United States can make to world development is to pursue sound economic policies at home. A vigorous U.S. economy firmly set on a path of sustained and non-inflationary economic growth will be of immeasurable help to the global economy. We have set out a comprehensive course to domestic economic recovery and will continue to work closely with the Congress to assure it is followed.

At the same time we must recognize that global economic conditions have a direct impact on the health of the U.S. economy, and that the international economic environment can be an important force for either enhancing or thwarting our domestic recovery efforts. It is thus in our own economic self-interest to encourage sound and sustainable growth in the developing world. A prospering and economically stable developing world also serves important U.S. political, strategic, and humanitarian interests.

It is the view of the Administration that the multilateral development banks do contribute effectively to economic growth and development and that active U.S. support for these institutions is critical to our security and economic interests. Those interests include:

National Security Interests

At a time when global economic difficulties are exposing nearly all of the poorer developing countries to serious threats of political, economic, and social instability, the MDBs are capable of providing a valuable contribution to our national security and other foreign policy objectives in each of the major regions of the world and in countries of particular interest to us. One need only scan the list of the largest MDB borrowers -- Mexico, Brazil, Argentina, Indonesia, Korea, Pakistan, Thailand, the Philippines, Turkey, and Egypt -- to recognize that the MDBs are lending to countries of great importance to us. The IDB is especially important for our relations with Latin America and the Caribbean. The MDBs are not providing any assistance to such hostile nations as Vietnam, Cuba, Iran, Afghanistan, and Cambodia.

There is also the growing importance of our dependence on critical raw materials from the developing world. The United States, for example, depends upon the developing countries for all of its tin imports, 90 percent of its bauxite, and 76 percent of its cobalt. The MDBs have made loans to key producing countries such as Bolivia, Zambia, Zaire, and Indonesia. We and the rest of the world have a vital stake in ensuring the stability of LDC economies which produce critical raw materials and in safeguarding access to these supplies.

The Health of the International Economic System

In U.S. FY 1982, MDB loan commitments totalled $16.8 billion. This made the MDBs by far the largest official source of external capital for the developing world. As such, they can contribute in a major way to economic growth and stability in developing countries, and to the expansion of trade between the developing and the industralized nations. By improving their policy advice, preparing development projects based upon sound economic criteria, and insisting upon rational economic policies within recipient countries, the MDBs can continue to be an important respected force in the international economy -- one which promotes the open, competitive, market-oriented economic system.

The United States continues to urge these institutions to strengthen their role in advocating an open trading system, realistic foreign exchange rates, the use of markets to help determine resource allocations, sound pricing policies, cost recovery in investment projects, reliance upon the private sector, and sensible fiscal and monetary policies. With such efforts the impact of the MDBs can result in a significant contribution to the health of the world economy.

Direct U.S. Economic Benefits

There are direct benefits to the United States in increased exports to developing countries which borrow from the MDBs. Generally, non-OPEC developing countries account for over 25 percent of U.S. manufactured exports. In a time of high unemployment, these markets are even more important for American workers.

In addition, the relatively limited U.S. paid-in subscriptions and contributions to the soft windows can result in larger expenditures on U.S. goods and services. Currently, procurement of American goods and services for projects assisted by the MDBs is running at approximately 1.2 billion dollars per year, benefitting virtually all regions of the United States. At the same time U.S. budgetary outlays for U.S. paid-in subscriptions and contributions to the soft windows have been approximately $1.0 billion per year. Thus, there is a net positive return on U.S. contributions just in terms of procurement, and we are working to improve on that record.

In terms of description of goods sold, the major categories were mechanical equipment, consultant services, chemicals, electrical equipment, school equipment, medical equipment and supplies.

We are working to improve the effectiveness of the MDBs so as to maximize their contribution to overall economic growth in the developing countries and United States interests. At the same time, we are conscious of budgetary concerns, and are trying to ensure that the MDBs make the most efficient use of their resources and that our interests are advanced at the lowest possible costs. By improving their efforts in such areas as project preparation, economic analysis and technical assistance, the MDBs can fulfill a unique role in promoting the sound economic policies and market-oriented institutions necessary to better integrate the developing countries into the international economic system.

THE APPROPRIATION REQUEST

The Administration's request for fiscal year 1984 calls for $1,618.4 million in budget authority and $2,862.7 million in callable capital under program limitations for subscriptions and contributions to the multilateral development banks.

We believe funding at this level is essential to meet our existing international commitments from previous replenishments and also to meet the funding requirements for new replenishments in the regional development banks, which this Administration has negotiated.

For more than a year, the Administration has been engaged in negotiations to replenish the hard and soft loan windows of the Inter-American and the Asian Development Banks. Throughout these negotiations we have carefully considered the views expressed by the Congress and have tried to achieve the major recommendations of our Assessment. The new replenishments represent important further steps toward implementing those recommendations.

Specifically, the new replenishments are consistent with the Assessment's recommendations to reduce overall contributions to the soft loan windows and the proportion of capital subscriptions paid-in while still providing assistance to the poorest developing countries.

While the substantial reduction in funding for the soft windows will limit concessional lending programs, we have managed carefully to concentrate funding on the poorest regions and countries. The replenishment for the IDB's Fund for Special Operations will be about $1 billion less than the previous replenishment, but Latin America has the highest per capita GNP of the developing regions of the world. By contrast, the replenishments for the Asian Development Fund and African Development Fund will be about $1 billion and $200 million larger respectively.

We are also urging that the MDBs use their resources more effectively, so that the poorest countries receive the benefits of these programs. We have been working with the Banks to ensure: (1) greater selectivity and policy conditionality within projects and sector programs; (2) more emphasis on catalyzing private sector flows; and (3) firm implementation of graduation from hard loan windows and maturation from soft windows. Effective use of these policies should permit lower funding levels and at the same time ensure that scarce resources are concentrated on those countries which can best employ them and which are in the greatest need.

The Assessment of U.S. participation in the MDBs recommended that the U.S. phase-down and eventually phase-out paid-in capital in future MDB replenishments. The proposed levels in the new replenishments represent a declining reliance on paid-in capital as the institutions have matured financially. It is a balanced compromise that reflects our budgetary situation and the views of both the Congress and the capital markets.

In the case of the IDB, the new level of 4.5 percent paid-in will result in annual budgetary savings of almost $40 million per year, or $160 million over the four-year period of the replenishment, compared with the 7.5 percent paid-in level of the last replenishment. The reduced level of paid-in was accompanied by an increase in the convertible currency subscriptions of the borrowing member countries. The borrowing member countries will now provide 100 percent of their paid-in capital in convertible currencies as compared to 66 percent in the last replenishment.

With regard to the Asian Development Bank, ADB management initially proposed maintaining the ten percent existing level of paid-in for the upcoming General Capital Increase (GCI). While discussions about the size and financing of the GCI are still ongoing, we expect the level of paid-in capital eventually agreed upon will be approximately 5 percent.

By reducing the proportion of paid-in capital, we reduce the budgetary cost to U.S. taxpayers while maintaining the financial soundness of these institutions.

International Development Association (IDA) Supplemental

In addition to the fiscal year 1984 request, the stretch out of our contributions to IDA VI necessitates a $245 million fiscal year 1983 supplemental request.

The United States was expected to provide $1.08 billion annually for three years to IDA under the original internationally negotiated funding arrangement. However U.S. contributions have been far short of this expectation because our contributions were subsequently stretched over four years. We provided only $500 million in FY 1981 and $700 million a year in fiscal years 1982 and 1983. Other donors took up much of the slack by agreeing to release their second and third installments to IDA, and to provide an additional $2 billion to sustain the lending in FY 1984.

The $245 million in the FY 1983 supplemental is a critical component in the President's foreign assistance program. The United States needs to meet the existing schedule of contributions in order to demonstrate both our ability to live up to international funding commitments and our desire to work constructively with other members to enhance the impact of IDA's operations.

IDA is a significant element of economic cooperation with our allies and is the largest single source of concessional assistance. With underdeveloped resource bases, small productive capacities, and low per capita incomes, most IDA recipients have very limited access to external resources from private sources, and they have also been hardest hit by the global recession. Consequently IDA operations are very important to these countries, many of which -- such as Kenya, Sri Lanka, Pakistan and Sudan --- are of strategic and economic importance to the United States. IDA operations are also important to U.S. humanitarian interests in that more than 80 percent of IDA's commitments have been to countries that in 1980 had per capita incomes of $410 or less. In addition, at our urging, IDA has begun to focus on the difficult development problems of Sub-Saharan Africa.

Full funding of the Administration's request for IDA is necessary to avoid further disruptions in IDA's lending operations. It is also important to demonstrate the U.S. long-standing commitment to work constructively with our allies to assure that the poorest countries are provided an opportunity to participate in the process of growth and development.

BUDGETARY IMPLICATIONS

The FY 1984 request for the MDBs represents an increase of $326.4 million in budget authority, and $502 million under program limitations over the FY 1983 appropriation. (This does not include the FY 1983 supplemental request of $245 million for IDA). The bulk of the increase ($395 million in budget authority) over last year's appropriation comes as a result of meeting the shortfall in our commitments to IDA VI.

THE WORLD BANK GROUP

-- For the International Bank for Reconstruction and Development (IBRD), we propose $109.7 million in budget authority and $1,353.2 million in callable capital under program limitations for the third of six installments of the U.S. share of the 1981 General Capital Increase.

-- For the International Development Association, the Administration is requesting $1,095 million in fiscal year 1984, which together with the $245 million being requested in the supplemental appropriation for fiscal year 1983 will complete the U.S. contribution to IDA VI.

THE INTER-AMERICAN DEVELOPMENT BANK (IDB)

-- For subscription to IDB capital, the Administration is submitting and seeking Congressional approval of authorization legislation for an increase in the U.S. subscription to the capital of the Bank. Included in the FY 1984 appropriation request is the first of four equal annual subscriptions consisting of $58 million in budget authority for paid-in capital and $1,231 million under program limitations for callable capital.

-- For the Fund for Special Operations (FSO), the Administration is submitting and seeking Congressional approval of authorization legislation for a $290 million U.S. contribution to the FSO. The first tranche of $72.5 million is being sought in the FY 1984 appropriation request. Together with prior unfunded requests amounting to $41.1 million, the total FY 1984 request for the FSO is $113.6 million.

-- Partially modeled after the International Finance Corporation, the Inter-American Investment Corporation would be a separate entity which provides development assistance to the private sector in Latin America and Caribbean. The member countries of the Inter-American Development Bank have discussed formation of such a Corporation for a number of years and a meeting was recently held to seek an agreement on the capitalization of the IIC. After the agreement is completed, the Administration will seek authorization from the Congress. The $20 million requested for FY 1984 is what we envision to be the initial U.S. subscription.

THE ASIAN DEVELOPMENT BANK

-- For the Asian Development Bank (ADB), the FY 1984 request will depend ultimately on the size of the third general capital increase now being negotiated. We will submit and seek authorization legislation for this replenishment as soon as the negotiations are completed. The FY 1984 request for the ADB reflects the earlier negotiation position of the United States. We now expect that our share of the new replenishment will result in slightly larger numbers than what currently appears in the Budget. Consequently, we will submit a budget amendment when negotiations are completed. The current ADB management proposal calls for a U.S. paid-in capital subscription of $66.2 million and $1,257 for callable capital over five years. The proposal implies a likely request level of $13.2 million for budget authority and $251.4 million under program limitations -- a modest increase over the levels in the January budget estimates, ($6.9 million paid-in and $224.6 million under program limitations). The amount of paid-in capital represents a significant reduction from the $20.4 million annual amount in the last general capital increase.

-- For the Asian Development Fund (ADF), we are requesting $147 million which includes $130 million for the first tranche of the third replenishment (ADF IV), $3 million for the remaining proportion of our share of the second replenishment (ADF III), and $14 million for an unfunded portion of the first replenishment (ADF II). We are submitting and seeking Congressional approval of authorizing legislation for an increase in U.S. contributions to the ADF.

THE AFRICAN DEVELOPMENT BANK

-- U.S. membership in the African Development Bank (AFDB) was authorized in 1981 as was a U.S. subscription of $359.7 million of AFDB capital. The Congress appropriated the first installment of the U.S. subscription to the AFDB in 1981. This installment included $17.99 million for subscription to paid-in capital and $53.96 million, under program limitation authority, for subscription to AFDB callable capital. A second installment with identical amounts for paid-in and callable capital subscriptions is being sought in FY 1984.

-- In 1982, negotiations for a third replenishment of African Development Fund (AFDF III) resources were completed. Legislation authorizing a $150 million increase in U.S. contributions to this replenishment was submitted to, but was not enacted by the 97th Congress. This legislation has been resubmitted to the 98th Congress. Upon enactment of this legislation the United States will provide its first $50 million installment under authority of the 1983 Continuing Resolution. The FY 1984 request is for $50 million for the second installment to AFDF III.

CONCLUSION

In conclusion, MDB lending for economically sound projects is an important element of the international community's efforts to spur sustainable economic growth and greater stability in the developing world. Such growth is an important element in the health of the world economy, and also has considerable impact on the U.S. economy.

Continued emphasis on the MDBs to channel a substantial proportion of U.S. development assistance is also fully consistent with the need to ensure cost-effectiveness and to avoid unnecessary budget outlays.

Attractive features of the MDBs include cost sharing and the leveraging of U.S. contributions through MDB borrowing in world capital markets.

We strongly urge your support for this program. It represents the minimum amount of financial support required to safeguard the U.S. leadership role in these institutions.

MDB PROGRAM SUPPORT

Senator **Kasten**. Mr. Secretary, thank you.

As you know, this subcommittee has been generally supportive overall of the MDB program. We also particularly appreciate the efforts that you have made in negotiating with our different partners within these various institutions, and also agree in general with the assessment which Treasury came out with last year and with some of the rules, guidelines, and directions that we are going in.

I think that assessment reflects the feelings of the Congress, and certainly the feelings of many of the people on this subcommittee in terms of a new kind of realism as we look at the banks.

ASIAN DEVELOPMENT BANK

I would like to start off by examining the situation at the Asian Development Bank [ADB].

There are two issues that institution will have to consider in the near future, a request by the People's Republic of China [PRC] to join the bank, and the second is the request by India to become a borrower.

First, let us talk about the PRC's request in making application for membership to the Asian Development Bank. Has the PRC also demanded that Taiwan be expelled as a member from that institution?

Secretary **Regan**. Yes. That is what they are saying. They have not made formal application, but they have been inquiring about membership. It is my understanding that in their inquiries what they are saying is that they want the seat that Taiwan now has.

Senator **Kasten**. It is my belief that the membership of Taiwan in the Asian Development Bank may not be subject to the old argument of a so-called China seat, and therefore the arguments made expelling Taiwan from the United Nations, for example, or expelling Taiwan from the World Bank simply would not apply in this case, that there may be a way that both could stay as members of the Asian Development Bank.

Is that your understanding?

Secretary **Regan**. That is entirely possible, depending on the countries themselves and their wishes. For example, in the ADB there are members who are not fully nations themselves. Hong Kong, as an example, is a separate member.

From that point of view there could be ways that accommodations for Taiwan as well as the PRC could be made, and the management of the Bank is trying to work that out now. China's desires were mentioned to Secretary Shultz when he was in China last month. PRC mentioned it to us when they were over here for their Joint Economic Committee meeting in December.

We have also heard from the Taiwanese about this. So we are trying to work out some type of accommodation. Whether or not it will succeed, I couldn't say at this moment.

CHINA SEAT ARGUMENT

Senator **Kasten**. You agree with me that the so-called China seat argument, if you will, is not as strong here as it might have been at the U.N., for example, or at the World Bank?

Secretary **Regan**. Yes, I would say that.

Senator **Kasten**. If the PRC were to successfully engineer the expulsion of Taiwan from the Asian Development Bank, what would be the United States' position with respect to our future involvement in the Asian Development Bank?

Secretary **Regan**. We would have to reconsider, you know, what our position is. I wouldn't want to state at this moment exactly what it would be because we would have to see what the consequences were of the action.

I would point out that in any event if the PRC were to assume the China seat and some accommodation were made for Taiwan, under the funding that we have worked out as far as capital is concerned, paid-in capital and the like, there still would not be room for China to borrow from that institution.

Senator **Kasten**. You are saying then that if Taiwan were expelled, that the United States would reassess its position overall in terms of our participation in the Asian Development Bank?

Secretary **Regan**. We would have to take a second look, yes.

SHARE OF INDIA LOANS

Senator **Kasten**. With respect to India's desire to become a borrower, if India did in fact become a borrower, what would her so-called normal share be? What would our estimate be?

As you know, they are taking close to 40 percent of the money from IDA. Is there any kind of formula based on population or need? Do you have any indication of what that share might be?

Secretary **Regan**. I am trying to find out the percentage question, Mr. Chairman. I know that India has asked for $2 billion over the next 5 years, but the percentage is what we are trying to figure out.

I will come back to you on that question.

Senator **Kasten** It would be a significant amount?

Secretary **Regan**. It would be a significant amount, about 25 percent.

[The information follows:]

Hypothetical Indian and Chinese Shares of the ADB Lending Program

The ADB does not calculate a "normal share" of ADB lending for individual borrowers. The Bank's determination of how much each borrower receives takes into account many factors including: population size, absorptive capacity, historical funding levels, funding availability and past performance in implementing projects. One indication used is ADB lending per capita in each borrowing country. A strict adherence to the use of this factor, however, would penalize smaller, less developed countries (especially in the South Pacific) and provide a disproportionate share to the larger countries. Downward adjustments from a strict application of the per capita ADB lending factor, therefore, take place for populous countries such as Indonesia and presumably would also apply to India or China in the event that these countries borrowed.

In order to consider the amount of ADB lending possibly available to any new borrowers such as the PRC or India, one must keep in mind several other factors:

The new ADF IV replenishment was $1 billion less than expected (a 25 percent reduction). Some previous ADF borrowers such as Indonesia, Philippines and Thailand will no longer receive ADF loans. Other ADF borrowers will have to "blend" ADF loans with less concessional ADB loans to meet their requirements.

The new capital increase will provide over $2 billion less in ADB lending than originally proposed (a 20 percent reduction). In addition to the loans for traditional ADB borrowers, the capital increase must provide the loans to "blend" with ADF recipients.

The Articles of the Bank call for the ADB to give "special regard to the needs of the smaller or less developed member countries in the region" and to avoid "a disproportionate amount of its resources being used for the benefit of any member."

Therefore, we see no room for ADB lending to major new borrowing countries under ADF IV or the third GCI. India's request for a $2 billion ADB lending program during 1983-1987 represents 24.5 percent of projected net ADB loan commitments during that period. At the time of the Indian request, the ADB had proposed a much larger capital increase (125 percent increase in capital stock versus the 105 percent increase finally agreed to). The Indian request represented 17 percent of the projected ADB lending program under this original proposal. The reduced size of the capital increase and the prior claim of the traditional ADB borrowers recognized by ADB management and most members makes it unlikely that India will receive ADB lending. Many issues require resolution before the People's Republic of China becomes an ADB member and receives ADB loans. Nevertheless, we believe the same arguments apply to any proposed ADB lending to the PRC.

Senator **Kasten**. If they were given that normal share and it turned out to be close to 25 percent, and the PRC became a member and was given her normal share, then how much of the Asian Development Bank's resources would then be used up by those two countries?

Secretary **Regan**. Fifty percent, on that basis, would be used up. This is much too much. There is no way we could do that and still have funds for Sri Lanka, Bangladesh, Pakistan, other areas that need support of the ADB.

Senator **Kasten**. Our rough numbers turn out to be more than 50 percent if you were to take both India and PRC, and Taiwan stays in.

What is the U.S. position with respect to India's becoming a borrower in the institution, and what are we doing about it today?

Secretary **Regan**. We have cautioned against that. We have made this known both to India and to the management of the Bank. We are working within the Bank to try to encourage India to go into the marketplace.

We know that India can borrow more in the commercial marketplace than it is now doing. That is what we are suggesting where they should be going rather than coming into the ADB and seeking funds that poorer countries would need.

Senator **Kasten**. Mr. Secretary, as I think you know, this subcommittee strongly supports your position on both of these matters. I think it is fair to say that if India were to become a borrower or the People's Republic of China were to get in at the expense of Taiwan, there would be significant congressional reaction, both in the House and in the Senate in terms of our support for this institution.

We look forward to working with you. I want to reinforce the negotiations that Treasury is undertaking.

Secretary **Regan**. You can be sure, Mr. Chairman, that we will reflect the views that you have expressed when we are meeting with the ADB management, as well as with these countries individually.

WORLD BANK PROJECT COMPETITION WITH U.S. BUSINESS

Senator **Kasten**. Mr. Secretary, we have received, and it is possibly the result of difficult economic times, unemployment, et cetera, a growing number of expressions of concern, even complaints, from colleagues and from people in the private sector with regard to the multilateral development bank support of certain projects which end up indirectly or even directly competing with U.S. industries which are now experiencing difficult economic conditions.

We have some fertilizer and copper facilities in other countries which compete with our own industries.

First of all, are you getting some of those complaints and expressions of concern as well, and what are we doing, if anything, to try to insure that World Bank activities do not add to the problems of domestic industries?

Senator DeConcini, for example, has been concerned about the copper industry. That is one example.

Are you hearing these complaints? Are you trying to address these problems, or is it just the state of the condition of our poor economic times?

Secretary **Regan**. We are hearing these complaints, Mr. Chairman, and we are reflecting them. We have been reflecting them, even without the complaints, for several years now through our executive directors in these banks.

Whenever projects come up, one of the chief questions we ask and probe, whatever the facility that the loan application is for, is this commodity in oversupply throughout the world? If it is or even if there is just slightly more supply than demand, we try to discourge any loan for that particular thing.

We see no need to develop more supply when there is not that much demand for it. So our executive directors are very alert to this.

Now speaking directly to the copper situation, we know that through the IFC, part of the World Bank, Mexico was borrowing some funds, part of the total cost of an investment in a copper mine just 25 miles south of the border, south of Arizona.

Incidentally, although it is not my area, and I don't want to get into this too much, one of the chief complaints here is in the environmental area because the restrictions that the World Bank has put on and the restrictions that Mexico has put on that smelter are not the same as we have. It is downwind from some of our own smelters. Believe it or not, it is possible that were the project to be completed, we would have our areas polluted by acid rain coming in from Mexican copper smelters.

We have found in that particular case that production is for domestic use; it is not for export to the United States where we know and are very sensitive to the fact that most of our copper mines are closed down at this point. With copper in the 85 cents a pound area there is no way our mines can be profitable.

That particular project is on hold. It is not at this time going forward. The problem is that Mexico has to go to the world market, the international marketplace, to borrow money in addition to what the IFC was going to put up.

So far they have been unable to do that. So that project is going nowhere at this particular time. Nor do we know if it will start up again, given the condition of the Mexican economy.

For the time being I think you can assure your senatorial colleagues from that area that we are watching that very carefully and nothing is happening in that situation currently.

Senator **Kasten**. Senator Rudman,

Senator **Rudman**. Thank you, Mr. Chairman.

Mr. Secretary, I just have two questions.

UNDISBURSED VIETNAM FUNDS

Looking through your justification under IDA, appendix D, I am curious, I am sure there is an explanation. Under Vietnam there is $60 million of which $26.7 million is undisbursed.

What is the history of that?

Secretary **Regan**. It was an irrigation project in Vietnam. It has not been completed. Nothing is happening on it currently. They were not able to go forward with it for one reason or another.

At this particular time the Bank has assured us that nothing is going to happen any further on that particular project.

Senator **Rudman**. When was the original loan made, the original $35 million disbursed? Was it back in the early 1970's?

Secretary **Regan**. No, in the late 1970's, 1978, the loan was approved and the original funds were disbursed right after that, over our objections.

SIXTH REPLENISHMENT OF IDA

Senator **Rudman**. I have only one other question. That regards your comments about the stretch out of our contributions to the sixth replenishment of IDA.

I wonder whether or not Congress has been a foil for the administration by not appropriating the full amount requested, thereby in some way improving our negotiating situation regarding future IDA replenishment.

You note other donors took up much of the slack when the United States failed to meet its commitment to IDA in 1982.

Isn't that exactly what we are striving for to increase participation by those donors so that the American taxpayer does not have to carry an unfair, disproportionate burden of this load? Isn't that exactly what we are trying to do?

Secretary **Regan**. First of all, Senator, I have to make a generalized statement that I don't know that this administration would ever use the Congress of the United States as a foil.

Senator **Rudman**. That comes as a surprise to me, Mr. Secretary.

Secretary **Regan**. Having put that disclaimer in there, I don't think that we have used the stretch out of IDA VI for our negotiating position in IDA VII, but we have told other negotiators in IDA VII, negotiators from other countries, that there is no way that we are going to be able to do this over a 3-year period. It will have to be at least 4 years if not 5 years, and we use as an example the fact that the current mood of the Congress is to have this stretch out.

Very frankly, we would hope that the Congress would not stretch out the IDA VI situation to 5 years, that we would make our commitment within 4 years because literally other nations of the world, our friends in Western Europe, people of that nature, have been putting up their share sooner, coming in on the assumption that the United States will at least do it in 4 years if they have not been able to do it in 3.

As a result, the poorer nations of the world have been able to continue getting some type of funds. Were we to stretch this out, this would really play havoc, I believe, with the current proposals that the IDA has for loans for many of these very poor nations.

Senator RUDMAN. I understand that, but as a practical matter you sit with your colleagues from around the world and you represent to them, and I am sure in a forthright and honest way, what the administration is trying to do, then those bad fellows up on the Hill don't do it.

You go back to them and say, "Look, we tried, but those people don't understand."

These other countries, many of which have had economies as prosperous as ours, better savings, all the figures you know better than I, say, "Well, if that is the case, we have our vested economic interests in Africa and Asia," and they come with additional funds which in many of our views is precisely what they should have done in the first place.

The result has been that other countries have shouldered more of the burden than they would have, had the Congress done precisely what the administration requested.

Is that not correct?

Secretary REGAN. There is another element here that I think you have to consider. That is the degree of influence we have in these institutions. To the extent that we don't come up with our money, to the extent that we stretch out and others are more forthcoming with their funds, our views are not accepted as readily when we are trying to kill a project or when we are trying to do something.

We do not have a veto in these institutions in most matters. The only exceptions to this are the Fund for Special Operations of the IDB where we can veto a loan and the Social Progress Trust Fund where we can block the use of those funds.

In the World Bank and in others, the majority usually governs. So they don't pay that much attention to the United States. Money talks. If we put up our share and do it promptly, I think we have a better chance of convincing them, when we get into a tight situation, to our point of view rather than have them ignore it.

PREVIOUS IDA FUNDING LEVELS

Senator RUDMAN. What was the level of IDA funding back in 1977, 1976? Was the United States doing its fair share back at that time?

The staff advises me it was 33 percent of total.

Secretary REGAN. Yes. It has been reduced now. We are down now to where we are below 27 percent.

Senator RUDMAN. I just want to comment, Mr. Secretary, and I have no doubt generally what you say is correct about money talking and having influence, but here in 1977 and 1978, fiscal 1976, we were in fact doing an enormous amount and they didn't pay any attention to us whatsoever, to our objections about Vietnam and all the problems we were having with MIA's.

The American people were upset at that time. When we were doing what we were supposed to do they still were not paying attention to us. I seriously doubt how much attention they pay to us anyway.

Secretary **Regan**. They do pay quite a bit of attention to us because we are insisting on that. We use the force of our personalities, our administration, to insist on our point of view wherever possible.

Senator **Rudman**. I expect as we come down to the final crunch around here several months from now, you know, this and other major concerns of yours which we all share, the whole IMF problem, and so forth, will come in for a great deal of scrutiny.

I just have a suspicion, and I may be incorrect, the fact of the matter is if you look at history here, by failing to respond to the amount desired by the administration over the past several years, to some extent we have transferred some of those responsibilities from the shoulders of the American taxpayers to those in other countries.

I don't know the chairman's views on how much of this we will meet, whether or not we will attempt to have another stretch out, but it seems to me to the extent we can make other countries in the world who are prosperous undertake more of the burden than they have in the past, it is to the advantage of us internationally in some ways, a disadvantage in some ways.

I don't have to tell you the problems we have with our domestic budget this year.

Secretary **Regan**. I understand that. Starting today you will have more.

Senator **Rudman**. I think you do a superb job in representing the administration's position and are doing a superb job in all your work down there.

It is on this narrow issue that some of us feel maybe you can transfer some pressure that maybe you can't transfer on other issues.

Secretary **Regan**. One of the things you have to think through is whether or not we are going to push for exports in this country. We continually talk about that. We continually say that 4 out of 5 of the new jobs in manufacturing come from export-derived types of businesses.

If we are going to do that, we certainly have to have these countries in a position where they can afford to buy from us if we are going to export.

We can't export just to industrialized countries. We have to do that to the less developed countries. These are the recipients of this type of aid. This type of assistance builds the infrastructure on which the whole economy is based in a nation.

Accordingly, I think that we have to think through whether or not it is in our own selfish interest to keep these nations going.

You notice in my prepared remarks I said that while we put up $1 billion for these banks, we bring in $1,200,000,000 in purchases from the various funds that are being provided to these banks. This is direct dollar-for-dollar swapping.

So to that extent we are offsetting some of the contributions we are making.

Senator **Rudman**. Mr. Chairman, I have an additional comment.

REPLENISHMENTS

What you say is true, of course, it is probably even more valid in terms of your request on the whole IMF question, although there is a tie here. Just looking at the figures which the staff has just passed over to me, we went from an initial $323 million in 1965, the first replenishment, $312 million; the second, $480 million; the third, $960 million; the fourth, $1.5 billion; the fifth, $2.4 billion, and now a request for $3.2 billion.

I hardly think that in light of all the factors involved here that the American taxpayers, it is not us, it is the American taxpayers who have shouldered a very reasonable burden here and many of them feel, of course, that we shouldn't do any of this, and I think they are wrong, but I think they feel more reasonably that others don't do their part, and I think to some extent they are right.

I won't take any more time. Unfortunately, I have a hearing that I have to get to.

Thank you, Mr. Chairman, for yielding to me.

I thank you, Mr. Secretary.

Secretary **Regan**. I would like to point out before you leave that we started off with the original contribution of 45 percent. The United States put up 45 percent of the total and at each replenishment, therefore, we kept dropping, 42, 40, 33, and 31 percent, now 27 percent.

So, our percentage has been going down. We have been conscious that other nations put up their share so that the American taxpayer does not support the whole endeavor.

We are very grateful to the American taxpayers for what they have done and simply what we are asking for is that we live up to our commitment on the $3.2 billion.

That is what we are asking at this point.

Senator **Rudman**. Thank you, Mr. Secretary.

HUMAN RIGHTS

Senator **Kasten**. Mr. Secretary, Public Law 95-118 instructs the U.S. executive directors of the international financial institutions to oppose or abstain from voting on projects for countries which violate internationally accepted standards for human rights.

The U.S. Directors of the World Bank have abstained or voted no for human rights reasons a number of times over the last few years.

Has this negative U.S. vote ever succeeded in halting funds for a project?

Secretary **Regan**. I don't believe so, Mr. Chairman.

Let me check that. We are generally out there by ourselves. Everyone else usually goes along. Since in most cases it takes only a 50-percent vote to approve a loan there is no way we can stop it by ourselves, except in the cases I have already mentioned.

Senator **Kasten**. So the kind of clout, if you will, or power that you were referring to in your response to Senator Rudman, at least in these kinds of questions really does not wash?

Secretary **Regan**. Not when it comes down to what the others want to give, but we can generally argue quite a bit in these and reshape an awful lot of these loans before they are given. We just don't rubber stamp them, far from it.

AFRICAN DEVELOPMENT BANK

Senator **Kasten**. Have you appointed an executive director to the African Development Bank yet?

Secretary **Regan**. No, we have not. We are still searching for one. We have several candidates that are currently being looked at.

Senator **Kasten**. There are a number of people in Congress that have expressed concern over the fact that we have not done that. There are some that feel it might not make too much sense to appropriate more money in view of the fact that we still don't have an executive director.

I don't have any strong feelings one way or the other about that. I am hopeful we can proceed.

Secretary **Regan**. I think we can assure you within the next 30 days or so we will have our candidate in sight. Frankly, several of them that we have looked at we have gone through the process with them and then for some reason or other they have turned us down.

It does take time to go through the FBI check and all of that before we surface the name.

NICARAGUA

Senator **Kasten**. Mr. Secretary, what instructions do our executive directors have in the MDBs with reference to loans for Nicaragua? Are they instructed, for example, to vote against any such loans?

Secretary **Regan**. We haven't given blanket instructions to vote against them, but we have been opposing any such loans for Nicaragua.

Senator **Kasten**. Mr. Secretary, I have some additional questions which I would like to submit to you for response in writing. I am aware of the request from a couple of other Senators who were unable to be here this morning who have questions to submit to you in writing.

I want to thank you for your testimony today. I look forward to working closely with you on the foreign assistance program. I am hopeful, as I said at the outset, that we can concentrate on the IMF question. I think it is a most important one.

I understand the position you find yourself in with IDA. I understand looking at the numbers, $1,083 million, even if we get our $245 million this year, we can work through those numbers and the Congress, I am sure, will act one way or the other on them. But the IMF question is one in which I think we have a much larger stake and, frankly, much stronger congressional bipartisan and bicameral support.

SUBMITTED QUESTIONS

I look forward to working with you. I am sure we will be again discussing the supplemental request for the International Monetary Fund.

[The following questions were not asked at the hearing, but were submitted to the Department for response subsequent to the hearing:]

QUESTIONS SUBMITTED BY SENATOR KASTEN

LEBANON

Senator Kasten: The Administration is requesting -- through the bilateral programs -- substantial funds for Lebanon. What is the World Bank doing to help in the reconstruction of that country?

Secretary Regan: The World Bank has carefully studied Lebanon's reconstruction needs, and on March 25 issued a "Lebanon Reconstruction Assessment Report" which details possible projects for both bilateral and multilateral donors. However, the shape and scope of the Bank's specific role in Lebanese reconstruction has not yet been defined pending resolution of the security and sovereignty issues within Lebanon.

SECTORAL EMPHASIS OF IDA LENDING

Senator Kasten: IDA bears the responsibility for fulfilling the objectives of increasing assistance to solve basic human needs in the LDCs. What percentage of IDA lending has gone to agriculture, rural development, population and nutrition needs? What percentage has gone to transportation and imports of technology? Why is so much of IDA's funding used for transportation and imported technology if basic human needs are the reason for IDA's existence? What percentage of IDA's funding goes to other than the poorest nations?

Secretary Regan: We believe the current sectoral emphasis of IDA's lending corresponds well with our objective of having a lending program which aims at increasing the productive income of the poor and strengthening the basis for long-term self-generating development.

The percentage of IDA's $26.7 billion in commitments by sector over the 1961-82 period are as follows:

Agriculture	37%
Basic Infrastructure	30%
Energy	13
Transport	13
Telecommunications	4
Industry	8%
Other Infrastructure	6%
Water Supply & Sewerage	4
Urbanization	2
Human Resource Development	7%
Education	6
Population, Health, & Nutrition	1
Non-project Lending (including technical assistance)	12%

There has, however, been a significant change in IDA's lending pattern during the 1961-82 period, with a growing emphasis on agriculture and rural development and less emphasis on transport and non-project lending. In IDA's early years, accelerating growth was IDA's main objective and it was assumed that growth would follow once an economy's basic infrastructure was in place. Since the early 1970's, IDA has become more concerned with finding ways to ensure that the benefits of growth reach the poorest people. In 1973, IDA announced a major expansion of lending for rural development under which substantial resources were provided for small-scale irrigation, rural roads, and agricultural credit programs.

On a cumulative basis, 81 percent of IDA's 1961-82 commitments were to countries that in 1980 had per capita incomes of $410 or less; 98 percent were to countries with per capita incomes of $730 or less. If one looks at the more recent 1977-82 period, 83 percent of commitments were to countries with per capita incomes of $410 or less; 99 percent to countries with per capita incomes of $730 or less. Papua New Guinea is currently the only IDA eligible country with a 1980 per capita GNP above $730.

GRADUATION

Senator Kasten: Last year we spent some time talking about the administration's push for a "graduation policy" in the MDBs. You were encouraging the institutions to graduate countries based on economic considerations. What is the status of that proposal at this time?

Secretary Regan: We still believe that the MDBs should graduate countries based on economic considerations. Indeed, the ultimate objective of all development banks--by their charters--is to graduate their borrowers to full dependence on commercial lenders. In fact, evidence of access to external capital markets is one of the important economic considerations guiding the graduation process. Such access can of course vary over time, the current time period being particularly difficult for many LDCs. This factor can obviously impinge on the graduation process.

While no countries have graduated since the administration began to examine the matter, several countries now completely rely on the hard loan windows of the MDBs.

In IDA, three countries (Cameroon, Egypt and Nicaragua) matured to full reliance on IBRD lending in 1981 and one (Congo) in 1982.

India's share of IDA was reduced to 33.5 percent in the World Bank's Fiscal Year 1982. We expect India to continue phasing into hard window borrowing.

In the Asian Development Fund, the Philippines, Thailand and Indonesia will mature to full reliance on hard window borrowing this year.

In IDB's Fund for Special Operations, Category C countries will not borrow resources from the recently negotiated replenishment. This affects Bahamas, Barbados, Costa Rica, Jamaica, Panama, Trinidad and Tobago, and Uruguay.

REPLENISHMENT COMMITMENTS

Senator Kasten: Do all of the recently completed negotiations reflect a U.S. position that our commitments are wholly subject to the appropriation of funds?

Secretary Regan: Yes, though of course, we will continue to subscribe to callable capital under program limitations. In our negotiations we have made clear that our commitments are subject to Congressional processes, and other countries understand and accept this.

INTER-AMERICAN DEVELOPMENT BANK ROLE IN MEXICO, ARGENTINA, PERU AND BRAZIL

Senator Kasten: What role is the Inter-American Development Bank playing in the efforts being made by the U.S. and the IMF with reference to the very severe economic conditions in Mexico, Argentina, Peru and Brazil?

Secretary Regan: The Inter-American Development Bank complements the efforts of the U.S. and the IMF to resolve short-term balance of payments difficulties. In 1982 IDB made loans totaling $337 million to Argentina, $274 million to Mexico, $269 million to Brazil, and $154 million to Peru. While the focus of IDB operations is on longer term development projects, the IDB's support for borrowers' efforts to expand their productive base -- both human and material -- and to institute sound macroeconomic policies acts to spur sustainable economic development. The IDB's support -- financial and technical -- for well conceived economically viable investment projects acts to improve both the borrowers' long-term balance of payments position and its international creditworthiness.

MDB ROLE IN THE CARIBBEAN BASIN INITIATIVES

Senator Kasten: Last year we discussed the MDBs role in the Caribbean Basin Initiative and the Administration's hope that the MDB's could fulfill a broad role in this Initiative. Can you tell us whether or not the MDBs took an active role in the CBI?

Secretary Regan: When we indicated that the MDBs could fulfill a broad role in connection with the CBI we meant that both the CBI and the MDBs can effectively support economic growth and stability in Latin America and the Caribbean. They do so, however, in totally different ways. The financial assistance component of the CBI is designed to provide immediate, quick disbursing, balance of payments assistance. The MDBs primarily disburse funds only against receipts for approved project purposes; these disbursements are made over a time period of approximately five to eight years.

The MDBs recognize that regional cooperation efforts should be coordinated between donors and recipients to ensure the most efficient use of available resources. The World Bank chairs an annual Caribbean Consultative Group meeting, and the IDB will be chairing a Central American Consultative Group meeting this year. The activities of the Consultative Groups are fully complementary with the objectives of the CBI.

The Caribbean Consultative Group has analyzed the problems of the region and identified policy changes, investment, and technical assistance requirements. One of the conclusions of last year's Caribbean Group meeting was the need to increase exports as the best way of dealing with the serious balance of payments problems facing the region. The meeting also endorsed the initiatives of the IDB to coordinate a major technical assistance effort directed towards promoting agricultural exports outside the region.

The IDB chaired Central American Consultative Group meeting will focus on the special needs of that region particularly revitalizing previously established inter-regional trade flows. In addition, the meeting is expected to discuss promotion of traditional and non-traditional exports. The World Bank will actively participate in the Central American Consultative Group meeting.

In 1982, the World Bank/IDA and the IDB provided almost $240 million and $428 million, respectively, to CBI eligible countries. This compares with $160 million from the World Bank/IDA and $425 million from the IDB in 1981.

THE AFRICAN DEVELOPMENT BANK

Senator Kasten: Recently the United States joined the African Development Bank. In connection with this, there is a request for $17,986,678 as the U.S. contribution for fiscal year 1984. As you know, the Subcommittee has expressed concern with the management of the Bank in the past. Can you give us your assessment of the merits of U.S. participation in this institution, and if you feel that management of the Bank has improved?

Secretary Regan: In our judgment, U.S. participation in the Bank serves a combination of political, economic and humanitarian interests we have in Africa. Clearly, these interests would be better served if the institution were more effective and efficient. Consequently, we will continue to work to improve the operations of the Bank, particularly now that we have a direct say in the running of the institution. I should note, however, that we are encouraged by the progress that has been made thus far, especially the adoption of the Bank Group's five year plan. The plan, now being implemented, contains numerous recommendations for constructive policy and other changes to improve Bank Group operations, personnel and administrative practices, and financial management.

INTER-AMERICAN DEVELOPMENT BANK MANAGEMENT

Senator Kasten: The Senate Report on the fiscal year 1983 request for the Inter-American Development Bank again noted management difficulties. Can you give the Subcommittee an assessment of IDB management and what constructive steps have been taken in this institution to improve management?

Secretary Regan: In the IDB, as in all the MDBs, we see need for continued improvement in terms of efficiency and quality of personnel. We are working energetically to secure such improvements, particularly on those changes that would strengthen the institution's ability to promote market oriented economic growth.

For example, we have secured IDB's Board of Directors approval for new policies in the areas of public utility tariffs and subloan interest rates. These new policies will help ensure that IDB resources are efficiently used and should help public utilities and financial intermediaries become more financially self sufficient. In addition, IDB management has agreed to prepare new policies for Rural Development and Urban Improvement as well as review its current Energy Policy.

Finally, IDB management will undertake a review of its compensation policies in order to make them more performance oriented.

MDB ASSESSMENT

Senator Kasten: Can you give the Subcommittee an assessment of recommendations made by your in-house study of multilateral development banks -- which have been carried out and what policy changes actually have been made?

Secretary Regan: As you know, there are eight specific recommendations included in the assessment of our participation in the multilateral development banks (MDBs). Those recommendations were formulated to improve MDB effectiveness and to reduce the budgetary impact of U.S. participation in the banks. The first recommendation provides for greater emphasis on the free market system and private sector development in multilateral development bank loans and for greater financial participation by the private sector in bank programs. In this regard, I can report that the Inter-American Development Bank is closing negotiations to establish the Inter-American Investment Corporation which is modeled after the International Finance Corporation and which will perform a similar function. To further its role as a catalyst of private capital flows, the ADB recently established a small $10 million equity fund to invest in promising private companies in borrowing countries. Moreover, the amount of multilateral development bank co-financing with private sector banks has risen sharply. In the World Bank for fiscal year 1982 it was $3.5 billion. In the Asian Development Bank it rose to $261 million in 1982 up from $87 million in the prior year. Co-financing has also risen modestly in the Inter-American Development Bank. In addition, the U.S. Executive Director in the World Bank has voted against loans which we consider to have potential for displacing private capital. There have been seven instances of this kind during fiscal year 1982 and thus far during fiscal year 1983.

The second recommendation calls for movement away from targetry in country and sector lending levels and concentration of MDB resources where they can have the most positive effect on policy reform. In particular, it calls for closer monitoring of structural adjustment lending by the World Bank and sector lending by the IDB. Within the Treasury, a special group has been established in the Development Policy Office to monitor those loans and to help coordinate U.S. action on them. In addition, on five occasions, we have opposed specific project loans on the basis of what we have considered to be inappropriate macro-economic policies.

The third recommendation deals with the need for placing greater emphasis on securing adequate rates of return from specific projects and on encouraging more linkage between lending levels and policy reform in recipient countries. On three occasions, we have opposed loans which in our judgment had doubtful economic viability or inadequate economic justification or rates of return. In the Inter-American Development Bank, we have been successful in reversing previously established policy by taking initiatives for increasing public utility tariffs to appropriate levels and for keeping sub-loan interest rates at a positive level. All in all, we have taken a number of steps to strengthen Treasury's internal review of MDB loans and we are having a greater impact on the policies of the banks and their borrowers.

The fourth and fifth recommendations of the assessment involve adoption of a more systematic approach to graduation from bank lending and the maturation or hardening of terms for countries receiving loans from the banks. In the World Bank, a per capita income ceiling has been established at $2650 and efforts are now under way to develop a specific framework for graduating countries which fall within a certain band below that level. Within the Asian Development Bank, Indonesia, Thailand, and the Philippines have been graduated from the concessional lending window, under the terms of the new replenishment just negotiated. They will rely in the future on ordinary capital loans at market-related rates of interest. Within the Inter-American Development Bank, the so-called "category C" countries (Bahamas, Barbados, Costa Rica, Jamaica, Panama, Trinidad/Tabago, and Uruguay) have been graduated from the Fund for Special Operations and will now receive their loans from ordinary capital resources. This development ensures that the resources of the FSO will be devoted to the "category D" countries, those that are the poorest and least-developed in the hemisphere. Within the International Development Association, I can also report that the Congo has been graduated from its concessional lending programs and that the percentage share of India, the largest single recipient of IDA funds, is being scaled back by a very significant margin.

The sixth and seventh recommendations deal with the budgetary implications of U.S. subscriptions and contributions to the multilateral development banks. They call for a plan to phase down and eventually phase-out new paid-in capital subscriptions to the banks and to begin to reduce our contributions to the soft loan windows in real terms. The most recent capital increase for the Inter-American Development Bank provides for a paid-in portion of 4.5 percent, down markedly from the 7.5 percent for the previous replenishment. In the Asian Development Bank the proportion of paid-in went from 10 percent to 5 percent in the most recent replenishment. In the Fund for Special Operations, we have also reduced the annual U.S. contribution from $175 million to $72.5 million. In negotiations which are upcoming for the replenishment of IDA, it is our firm intention to press for a significant reduction in our contribution.

The final recommendation of the assessment specifies that callable capital allocations are preferable to concessional window replenishments; that the World Bank has been more successful in promoting appropriate economic policies; that the Inter-American Development Bank ranks high in terms of U.S. political and strategic interests; that the Asian Development Bank ranks high in terms of efficiency; and that the African Development Bank ranks high in terms of humanitarian interests. As a general matter, I believe that the Administration has carefully considered these factors in making our decisions regarding the levels and shares of U.S. participation in the replenishments of resources for the multilateral development banks. To summarize, I also believe that we have made a good start toward meeting the goals that we have outlined for ourselves in the assessment.

QUESTIONS SUBMITTED BY SENATOR INOUYE

GRADUATION/MATURATION AND ECONOMIC ADJUSTMENT

Senator Inouye: Mr. Secretary, the magnitude and velocity of change in international economic conditions can, perhaps, be measured by the distance traveled from last year's confident pronouncements of "maturation" and "graduation" to the grim headlines of the present.

Venezuela is again a borrower from the Inter-American Development Bank. Brazil staggers under an extraordinary debt load, Mexico reels from a collapse of export earnings, Argentina totters at the brink....

What adjustments, what mid-course corrections has the Administration made to avoid running aground on the shoals of "maturation" and "graduation?

Is the accelerated disbursement of World Bank "structural" loans an example of the U.S. Government's efforts to adjust?

An increasing number of thoughtful and informed observers of the contemporary international economic scene are giving voice to the thought that less developed countries need a breathing space -- an opportunity to catch their breath -- to adjust to profound changes in the international economy.

They argue that the LDCs need not only IMF assistance, but also development assistance funding to finance the adjustment to changed international economic conditions -- you might say the LDCs need a kind of international "Economic Support Fund".

What do you think? Do developing countries need greater freedom to use development assistance to finance adjustment?

If we provide marginal amounts of development assistance to countries having larger structural adjustment problems, are we not (as the expression goes) pouring money down a rat hole?

The World Bank will earn record profits from its financial holdings this year. Would it not be possible to transfer these earnings to IDA to establish such an international economic support fund?

Would the Administration oppose World Bank funding -- on a temporary and strictly regulated basis -- to finance adjustment to contemporary economic conditions?

Is this not what "graduation" means in today's world?

Secretary Regan: The maturation and graduation recommendation put forward in the Administration's assessment of the MDBs (U.S. Participation in the Multilateral Development Banks in the 1980s) have been effectively adopted -- in substantial measure -- by the MDBs. The principle has been accepted that countries should mature from "pure soft loans" to "blend", and then to "pure hard loans" as development takes place. Similarly, phasing into full reliance on private capital markets -- "graduation" -- is an accepted practice.

Most explicitly, the World Bank adopted its "graduation" policy in January 1982 with a tentative benchmark per capita GNP of $2650 (in 1980 dollars). The World Bank has initiated consultations with a number of countries on graduation programs. Venezuela's resumed borrowing from the Inter-American Development Bank admittedly will be disappointing, but will hopefully be reversed during the next replenishment.

The maturation policy is on track and we see several notable achievements here, as well. While only one country (Congo) has fully matured from IDA in the last year, the strengthened blending of hard and soft lending -- preliminary to full maturation -- has taken place for several borrowers, most notably India. In the Asian Development Bank, Thailand, Indonesia and the Philippines have completed their long-delayed maturation and will no longer borrow from the concessional Asian Development Fund. In the Inter-American Development Bank, seven countries will cease borrowing entirely from the Fund for Special Operations, although the impact of hard window borrowing terms will be softened somewhat through the operations of the Intermediate Financing Facility.

Despite these recent successes, we should bear in mind that in the case of any individual borrower, the graduation or maturation policy is intended to be implemented gradually, over a period of several years and in close synchronization with economic conditions and opportunities. Global economic conditions are bound to affect the pace in some cases. This is both appropriate and well within the scope of the Administration's conception of graduation and maturation. At the same time, we anticipate that the expected strong, sustained growth in the coming years in the U.S. economy and, hopefully, in the global economy will also affect -- positively -- the pace in many cases. As a result, the final graduation or maturation date of individual borrowers may not be much different from what might have been envisioned a year or two ago.

The World Bank's recently approved Special Action Program was not specifically designed to accelerate disbursement of Structural Adjustment Loans (SALs). SALs are usually disbursed relatively quickly, in any case. The Program was primarily designed to accelerate temporarily disbursement of project loans and completion of the related investment projects over the next two years. In many cases, the financial difficulties associated with the global recession have threatened to delay some projects, and the Program is a temporary, pragmatic attempt to try to overcome these delays.

As for the idea of an "International Economic Support Fund", the International Monetary Fund already exists as the key institution for promoting balance of payments adjustment. The Congress is currently considering a proposed increase in U.S. participation in the IMF including $5.8 billion for a quota increase and $2.7 billion for expansion of the General Arrangements to Borrow. Assuming favorable Congressional action, the requested resources, combined with resources from other IMF members, will significantly strengthen the Fund's ability to support countries' adjustment efforts. Thus, I see no need for a supplementary "Economic Support Fund."

The magnitude of FY 1983 World Bank income is likely to be relatively small and would be better employed in building up the Bank's reserves, particularly at this time of widespread market concern about the quality of international lending portfolios, rather than transferred to IDA.

COMMERCIAL BANK EXPOSURE IN LDCs

Senator Inouye: Mr. Secretary, the Chairman has indicated that he will have a special hearing on the International Monetary Fund quota increase in the not-too-distant future. I will reserve most of my questions on debt until that hearing. However, to maintain continuity, I wish to ask one question at this time. Two years ago, when you appeared before the Committee, I raised questions about commercial bank exposure in the developing world. You suggested that the problem was bad, but said, "I do not think it is going to get any worse." Last year, I again raised questions about the exposure of U.S. commercial banks and the dangers of insolvency. You noted an increase in exposure and said it was "substantial but not startling." In particular, you said, "The increase in bank lending to developing countries is expected to decelerate this year."

What is that situation today?

Has U.S. private commercial bank exposure continued to grow?

What is the current ratio of claims to capital for the nine "money center" banks?

As I have read over the record of the past two years, I have become increasingly concerned about the inadequacy of information available to the U.S. Government.

What can we do to get a more accurate view of total bank exposure in the developing world?

Can the Treasury Department, at any given moment, ascertain the total debt burden faced by a country? I mean to include U.S. and third country private commercial debt, multilateral debt, and government-to-government debt.

Is there a way to obtain a composite picture?

Secretary Regan: We do not yet have end-year data from the Country Exposure Lending Survey, but it seems clear that the growth of U.S. commercial banks' exposure in non-OPEC developing countries decelerated sharply during 1982, particularly during the second half. At mid-1982, U.S. banks' outstanding claims (cross border, non-local currency) on this group were $98.6 billion, representing a 6.2 percent increase over end-1981. By comparison, the growth rate from end-1980 to end-1981 was 23.1 percent.

As of mid-1982 the claims on non-OPEC developing countries of the nine "money center" banks were $60.3 billion and their capital was $27.1 billion (ratio of 2.2 to 1). Their total assets, foreign and domestic, were $566.3 billion (ratio of 20.9 to 1).

I share your views about the need for better data on total external debt of an individual country experiencing or facing financing problems. We do attempt to develop a comprehensive debt profile on problem countries and, I think, can establish a reasonably good picture. However, the task generally requires an ad hoc effort to piece together a variety of sources, and accordingly takes considerable effort and involves a greater lag than desirable. There are particular difficulties with regard to some types of debt (e.g. short-term credit from non-bank sources, bank credit from banks outside the BIS). We cannot expect to have 100% coverage nor to completely eliminate reporting delays.

However, progress is being made toward a more systematic and timely compilation of debt data. The International Monetary Fund in particular is engaged in a major effort, and other international organizations are also working to improve their statistical reporting systems.

WORLD BANK SPECIAL ACTION PROGRAM

Senator Inouye: Mr. Secretary, how will the so-called "special action program" of the World Bank help relieve economic pressures on developing countries?

This program calls for the accelerated disbursement of $2 billion over the next two years. Is that not correct?

Will these funds be used for structural adjustment purposes?

Were these funds originally targeted for development purposes?

Which countries will benefit from this acceleration of lending?

Secretary Regan: On February 22 the IBRD Executive Directors approved a Special Action Program proposed by Management to help borrowers undertaking appropriate adjustment measures to sustain development programs. The Program -- which will not reduce concern for appropriate macro-economic or sectoral policies or standards of project analysis -- consists of temporary changes in lending procedures which will result in an additional $2 billion in IBRD disbursements under existing and proposed loan commitments over a 24-month period. However, no additional loan commitments were authorized. While the Bank will substitute high priority operations that support structural adjustment, policy change and the maintenance of crucial infrastructure for lower priority and slower disbursing operations, no increase in the 10 percent limit of total lending for structural adjustment and program lending was approved.

Specific country eligibility for the Special Action Program has not been determined, but the program is intended for "countries which have an appropriate policy framework in place, where investment programs have been or are being adjusted to resource availabilities, where adequate efforts are being made at resource mobilization, or where the assistance can support appropriate policy changes and adjustment measures".

The United States supported the proposal in light of the current international financial situation and our desire to avoid a contraction of international money and credit. We view it as a limited, temporary set of lending policy shifts available only to those countries that are pursuing appropriate adjustment and development policies.

IDA VI/ADMINISTRATION SUPPORT/IDA VII

Senator Inouye: Mr. Secretary, The President has requested fiscal year 1983 supplemental funding of $245 million for IDA. This is coupled with a fiscal year 1984 request of $1,095,000,000 for IDA.

If fully appropriated, will these requested amounts complete the U.S. contribution to the sixth replenishment of IDA resources?

As you know, we lost $100 million for IDA on the Senate floor last year by a two-vote margin. Some of my colleagues think that vote could have been won if the Administration had worked harder for IDA.

How do you think we can gain more support for this program?

An October 19, 1982, letter to me from the Assistant Secretary of the Treasury states the Department's view: "We have been surprised by the depth and extent of international concern and support for IDA."

Would you care to expand on this statement? How has the failure of the United States to complete its contribution to IDA affected our relations with other donors?

Has our failure to keep up in IDA affected our relations with our friends in other multilateral banks? Have U.S. credibility and U.S. leadership suffered?

If the Congress does not fully appropriate the President's request for IDA in fiscal year 1984, do you expect to request any unfunded amounts in fiscal year 1985?

How would a "stretch-out" of IDA VI funding into fiscal year 1985 affect the U.S. position with respect to IDA VII?

Is it true that the Administration now plans to request the initial U.S. contribution to IDA VII in fiscal year 1985?

Is it not possible that the Administration may find it necessary to request funding for both IDA VI and IDA VII in fiscal year 1985?

Secretary Regan: The Administration is strongly committed to completing U.S. contributions to IDA VI by FY 1984. The $245 million FY 83 supplemental and the $1,095 million FY 84 request will complete U.S. IDA VI contributions.

IDA is important to the world's poorest countries and is also one of the most visible examples of international economic cooperation with our allies. We believe it is in overall U.S. interests to fulfill our international commitments and support this institution, and we are hoping to convince Congress of the merits of our position.

We understand that there was considerable Congressional opposition to the IDA VI agreement as originally negotiated. However, many of Congress' concerns regarding the sixth replenishment have been met. IDA VI has, in effect, been renegotiated -- with U.S. contributions now $3.2 billion over four years, not three -- thus reducing the effective size of the annual U.S. contribution from $1,080 million to about $800 million.

Our allies have been very critical of our stretch-out of the IDA VI agreement and the resulting adverse impact it has had on IDA lending. This has been an issue at the Summits, in other international fora, and in bilateral discussions. In these meetings, the President and other Administration spokesmen have repeatedly stressed the Administration's intent to seek to complete the U.S. IDA VI contribution by FY 84. Subsequently, other donors have agreed to release their 2nd and 3rd installments to IDA VI and to provide an additional $2 billion in FY 84. As agreed in Versailles, negotiations have also begun on IDA VII to finance lending operations for the period after July 1, 1984. At this point, U.S. credibililty and leadership in fulfilling international agreements are clearly on the line.

The extension of our IDA VI contributions by another year (to a total of five years) would damage the President's credibility, strain relations with our allies and others, and undercut the impact of the efforts we are making in all the MDBs to increase lending effectiveness. The Administration would be viewed by the international community as indifferent to the problems facing developing countries and would be widely perceived as having acted disingenuously in our repeated international commitments to a 4-year IDA VI.

Our allies and others remain very seriously concerned about the uncertain status of U.S. IDA VI funding. This concern is evidenced by the recent receipt of demarches from the European Community, the Government of Norway, and a Committee of African Ambassadors on this issue. We also expect our Summit partners to register the importance they attach to IDA at Williamsburg.

The Administration is currently participating with other donors in IDA VII negotiations which envision the first U.S. IDA VII contribution in FY 1985. We are consulting closely with the Congress on all aspects of these replenishment negotiations. Naturally, we are hoping that Congress will provide full IDA VI funding by FY 84 and will work hard to encourage such an outcome. Should we not be successful, we will have to carefully assess our position with a view to upholding both U.S. international commitments and our interests in the institution.

MDB ASSISTANCE TO SELECTED COUNTRIES

Senator Inouye: Mr. Secretary, you have repeatedly drawn attention to the contribution MDB programs make to our national security, you have noted, for example, that IDA operations are very important to countries such as Kenya, Sri Lanka, Pakistan and Sudan, which are of strategic and economic importance to the United States.

Can you tell the Committee what amount of assistance was provided to each of these countries in fiscal year 1982?

How does that compare with U.S. bilateral assistance?

Is this an example of how the "Leverage effect" of contributions to the MDBs enables the U.S. to provide more assistance to individual countries than we could if we relied on bilateral channels alone?

Secretary Regan: The information you have requested follows (million dollars):

		MDBs			
	Hard	Soft	(IDA)	Total	Bilateral Military and and Economic Assistance
Kenya	70.2	88.4	(70.2)	158.6	93.1
Sri Lanka	44.7	146.6	(86.0)	191.3	73.8
Pakistan	216.5	331.1	(171.0)	547.6	203.3
Sudan	0.3	56.0	(56.0)	56.3	252.1
Total	331.7	622.1	(383.2)	953.8	622.3

The budgetary cost to the United States of the MDB programs is substantially less than the bilateral assistance program and can be estimated as follows:

	Hard	Soft	(IDA)	Total
Kenya	2.1	20.2	(16.5)	22.3
Sri Lanka	1.0	35.9	(23.2)	36.9
Pakistan	7.6	79.8	(46.2)	87.4
Sudan	0.1	15.1	(15.1)	15.2
Total	10.8	151.0	(101.0)	161.8

The relatively small cost is the result of cost-sharing with other countries and the utilization of private capital markets to finance lending programs -- in short, the leveraging effect.

MDB EFFECTIVENESS

Senator Inouye: Mr. Secretary, when you appeared before the Subcommittee last year, you said MDB "financing for countries pursuing ineffective policies should be curtailed and if circumstances dictate, terminated."

Has MDB financing to any country been curtailed or terminated in the past year for this reason?

Mexico, Brazil, Argentina, and Chile have been in the news lately because of their financial difficulties.

Would you say that these countries have been pursuing "ineffective policies"?

Do you expect the Administration to oppose MDB lending to Mexico, Brazil, Argentina, or Chile in the coming year?

What countries did you have in mind when you said financing should be curtailed or terminated because of ineffective policies?

Secretary Regan: We believe strongly that MDB resources should be used in countries where domestic policies enhance rather than thwart effective project implementation. We are therefore encouraged by the increasing recognition which the MDBs are now attaching to the importance within the development process of appropriate domestic policies.

Every year, the World Bank conducts an internal review process for their 5-year country lending programs. On the basis of an assessment of country economic prospects and policies, projected Bank lending can be either expanded or contracted. In our view, this internal review favors countries which are pursuing appropriate policies (Sri Lanka is a recent example) and leads to a contraction of lending in others (Tanzania is a recent example).

The four Latin American countries you cite, Mexico, Brazil, Argentina, and Chile, all have confronted serious economic difficulties to which they have responded with varying degrees of effectiveness. At the present time, all four countries have adopted IMF stabilization programs and the level of MDB project preparation appears to have increased.

When the loans to these four countries, as well as to all other MDB recipients, are presented for Executive Board consideration, we will continue to judge each project on its individual merits while at the same time examining the recipient's macroeconomic policies to determine if the existing economic environment is conducive to effective project implementation.

Since January 1, 1982, the United States has voted no or abstained on 16 loans to 10 countries (Nicaragua, the Bahamas, India, Malaysia, Mozambique, Zambia, Niger, China, Ghana, and Bangladesh) because of either concerns about project quality and/or the recipient countries' macro-economic or sector policies.

IDB REPLENISHMENT

Senator Inouye: Under the new Inter-American Development Bank Replenishment agreement, only 4.5 percent of new capital resources will be "paid-in"; the remainder will be callable capital.

Why did the Treasury Department advocate a reduction in the percentage of "paid-in" capital?

A growing number of the wealthier Latin American countries find themselves in a precarious financial condition. Is this a time to be reducing the percentage of paid-in capital? Is the risk to callable capital not increasing?

What amount of IDB loans to Mexico is backed by callable capital?

Venezuela has returned to the position of being a borrower from the IDB. Does this not indicate a weakening of the IDB's ability to finance development of other, less fortunate countries in Latin America?

What effect has this had on the Venezuela Trust Fund?

Secretary Regan: The United States Government recommended that the IDB adopt a level of paid-in capital of 4.5 percent for the following reasons: (1) it is our view that all the MDBs, including the IDB should gradually become financially self sufficient, i.e., require less public support, (2) the IDB now in its 24th year of operation is a financially sound and mature institution, and the reduction in paid-in capital would not affect the financial strength of the IDB, and (3) we believe that potential investors and rating agencies are more concerned with the continued provision of callable capital than level of paid-in capital.

The reduction in paid-in capital follows a long historical trend: the original capitalization of the Bank in 1959 required 43 percent paid-in capital; by 1971, the paid-in requirement had been reduced to about 20 percent. In 1976, the level reduced once more to 10 percent; in 1979, that level was lowered to 7.5 percent.

You are absolutely correct in describing Latin American countries as in precarious financial condition. It is our hope and expectation, however, that the region's economic situation will be much improved by the end of the Sixth Replenishment 1983-1986. Latin America has made impressive economic gains over the past twenty years and its long-term prospects are excellent. We believe that the capital structure of the IDB should reflect the overall economic standing of Latin America including its growth potential rather than shaping a financial package that concentrates on present (and hopefully temporary) economic difficulties.

We believe that there has been little increase in risk to the IDB's callable capital because of the current economic difficulties in Latin America. All of the major ordinary capital borrowers of the IDB have been working closely with the IMF to ensure that essential debt payments, including those to the IDB, can be covered. The Latin American countries have continued to repay their IDB loans and we expect they will continue to do so in the future.

All of IDB ordinary capital loans, including those to Mexico, are backed by convertible currency callable capital.

We are disappointed that Venezuela has returned to IDB as a borrower. However, we can understand the rationale for their decision given the current economic situation in Venezuela. We believe that the proposed ordinary capital lending program of almost $12 billion is large enough to provide sufficient funds for all borrowers. In addition, the poorer categories of IDB borrowers have been allocated at least $8 billion of the $12 billion in capital resources.

Venezuela's re-entry to the IDB as a borrower will not have any financial impact on the Venezuelan Trust Fund originally capitalized at $500 million in 1975. To date the VTF has made loans totaling $635 million.

IDB FUND FOR SPECIAL OPERATIONS

Senator Inouye: The Administration's request for fiscal year 1984 appropriations in support of U.S. participation in the Fund for Special Operations (FSO) of the Inter-American Development Bank is to be divided among three separate FSO replenishments.

Will the $39 million requested for the 1976 replenishment complete U.S. contributions to that replenishment?

Can the same be said for the $2 million requested for the 1979 replenishment?

What is the total U.S. contribution to the 1983 replenishment expected to be?

Do you expect to spread this contribution over several years?

What is the total amount agreed upon as the 1983 FSO replenishment?

Will Argentina, Brazil, Mexico, or Venezuela be eligible to borrow from the FSO under the 1983 agreement?

Have other countries been "graduated" from the FSO under the new agreement?

Will all contributions to the FSO be in the form of convertible currencies?

What practical effect will this have on FSO programs?

Does this indicate a shift towards balance of payments support through the FSO?

Secretary Regan: The $39 million we have requested for the 1976 replenishment will reduce by half our FSO funding obligation for that replenishment. In FY 1985 we expect to request the remainder. The $2 million requested for the 1979 replenishment will complete our funding obligation for that replenishment.

The total U.S. FSO contribution for the proposed Sixth Replenisment will be $290 million. Payments to the FSO are to be provided in four equal tranches, FY 1984-1987. We will do our best to adhere to that timetable.

The Sixth Replenishment provides for an FSO of $702.56 million. Neither Argentina, Brazil, Mexico nor Venezuela will be eligible to borrow FSO. In addition, as part of the agreement, Category B countries (Chile, Colombia and Peru) and Category C countries (Bahamas, Barbados, Costa Rica, Jamaica, Panama, Trinidad/Tobago and Uruguay) will no longer receive FSO funds. Category C countries will be eligible for a portion of the quasi-concessional resources provided by the newly created Intermediate Financing Facility.

All contributions to the FSO will be in the form of convertible currencies. By making all contributions convertible, we are increasing the assistance that the wealthier Latin Americans are providing to the poorest ones. The poorest Latin American countries that will receive the entire $702.56 million will provide $19 million in FSO contributions or slightly more than 2.5 percent of the FSO.

The requirement that all FSO contributions be in convertible currencies reflects the Administration's belief that the wealthier Latin American countries, in spite of current economic difficulties, should bear a greater responsibility in helping their poorer neighbors. The convertible currency requirement does not indicate a shift towards balance of payments support through the FSO.

AFRICAN DEVELOPMENT BANK

Senator Inouye: Mr. Secretary, one year ago, the African Development Bank found it necessary to stop disbursements on all outstanding loans and to cease consideration of new loans to member countries which were in arrears on payments due to the Bank.

What is the situation now? Are any members of the African Development Bank in arrears and, if so, which countries and in what amounts?

Secretary Regan: Last year the Bank suspended loan disbursements and ceased to consider new loans to nine countries because of arrearages on payments to the Bank. As a result of the sanctions, four of those countries cleared up their arrearages. Five countries are still in arrears: Ghana - $4.6 million, Sierra Leone - $3.5 million, Sudan - $6.7 million, Tanzania - $3.2 million, and Togo - $0.5 million. The Bank has reached agreement with Tanzania and Togo on a schedule of payments for the amounts owed and is seeking similar agreements with the three remaining countries.

Senator Inouye: On October 19 of last year, I was informed that the United States would join the Bank "as soon as some outstanding technical issues have been satisfactorily resolved."

Was one of these "outstanding technical issues" the question of member arrearages?

Have all of these issues been resolved?

Secretary Regan: The issue of loan arrearages was not among those outstanding as the Bank implemented its sanctions for arrearages early in the year.

The outstanding technical issues have been resolved and the United States has joined the African Development Bank.

Senator Inouye: The Administration has requested an $18 million appropriation as the fiscal year 1984 U.S. contribution to the African Development Bank.

Has the $18 million appropriated in the fiscal year 1981 supplemental been disbursed?

Secretary Regan: The $18 million appropriated in fiscal year 1981 was used to make our first payment on our paid-in capital subscriptions and has been disbursed.

Senator Inouye: Is the United States a full participating member of the African Development Bank?

Secretary Regan: The United States became a member of the African Development Bank on February 8, 1983.

Senator Inouye: If my memory is correct, Nigeria blocked non-regional participation in earlier years. Is that correct?

Now that Nigeria has, so to speak, fallen on hard times, will Nigeria be borrowing from the African Development Bank?

Secretary Regan: Non-regional membership in the African Development Bank was delayed because Algeria, Libya and Nigeria did not ratify the necessary amendments to the Charter of the Bank. In May 1982, Nigeria ratified the amendments and the Bank was opened for membership by non-African countries.

Nigeria has not borrowed from the African Development Bank since 1974 and we have no indication that they intend to change that practice.

MDB EXECUTIVE DIRECTORS

Senator Inouye: Mr. Secretary, last year, Chairman Kasten noted that the Administration, after having been in office for 15 months, had yet to fill all of the U.S. Executive Director and Alternate Executive Director positions at the MDBs.

Has the Administration been able to fill these positions?

Secretary Regan: All the positions have been filled except that of the Executive Director at the African Development Bank and Fund.

Senator Inouye: Why has the Administration been delayed in filling the Executive Director position at the African Development Fund?

Secretary Regan: We have been searching for a well qualified candidate for the African Development Fund Executive Director position since it became vacant in June of last year. We have interviewed a number of candidates and are now very close to a decision. We expect to name a permanent Executive Director by May.

Senator Inouye: Will this delay have any effect on U.S. participation in the African Development Bank?

Secretary Regan: No, I do not think so. Although the permanent Executive Director's position has been vacant, the U.S. has been represented by Treasury staff members acting as Temporary U.S. Executive Director.

ASSISTANT SECRETARY LELAND'S USE OF THE CONCORDE

Senator Inouye: As you will recall, last year I raised questions about the use of the Concorde by Assistant Secretary Leland.

In your response you stated that there was no alternative to use of the Concorde because Mr. Leland's presence was essential at previously scheduled meetings.

I will not now raise questions again about the appropriateness of the use of the Concorde by a U.S. Government official, but I would appreciate your response to the following questions:

What was the meeting for which Assistant Secretary Leland's presence was required on July 10, 1981, and what was the principal item of discussion during that meeting?

Secretary Regan: On the morning of July 10, 1981, Mr. Leland was scheduled to meet with Secretary Regan to prepare for the 1981 Ottawa Summit.

Senator Inouye: When Assistant Secretary Leland flew from New York to Paris by the Concorde on October 2, 1981, what was the nature of the meeting he was to attend? What pressing business had precluded the possibility of an earlier flight on less costly aircraft?

Secretary Regan: Mr. Leland attended in Paris, meetings associated with the OECD Export Credit Negotiations. He was scheduled to depart earlier on the standard flight but missed this flight to meet until 1:00 a.m. with Arab representatives including the Kuwaiti Finance Minister at the World Bank/IMF Annual meetings.

Senator Inouye: When Assistant Secretary Leland returned to the United States from Paris on October 7, he again flew by the Concorde. What meetings in Washington required his attendance?

Secretary Regan: Mr. Leland's return to Washington was scheduled to allow him to participate in meetings on Thursday, October 8 together with Secretary Regan on Canadian and Cancun issues.

SUBCOMMITTEE RECESS

Senator KASTEN. Thank you very much for your testimony here this morning. It is a pleasure to work with you as Secretary of the Treasury.

Secretary REGAN. Thank you, Mr. Chairman. I appreciate that.

[Whereupon, at 10:40 a.m, Wednesday, March 9, the subcommittee was recessed to reconvene at the call of the Chair.]

FOREIGN ASSISTANCE AND RELATED PROGRAMS APPROPRIATIONS FOR FISCAL YEAR 1984

THURSDAY, MARCH 10, 1983

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, D.C.

The subcommittee met at 10 a.m., in room S-126, the Capitol, Hon. Alfonse M. D'Amato presiding.

Present: Senators Kasten, D'Amato, and Rudman.

NONDEPARTMENTAL WITNESSES

SUBCOMMITTEE PROCEDURE

Senator D'AMATO. The subcommittee will come to order.

Today the Senate Foreign Operations Appropriations Subcommittee will hear from public witnesses who have requested the opportunity to present their views on the fiscal year 1984 foreign assistance programs.

First of all, I would like to welcome all of you here on behalf of the subcommittee and express our appreciation for your taking your time to express your views.

Again this year there has been a gratifying turnout of witnesses. However, we also operate under time constraints. As a result, it will be necessary to limit the amount of time for each witness. So we are going to ask that you summarize your statements. It is important that you keep in mind the entire statement will be inserted into the record.

In addition, we wish to advise you that, although not all of the subcommittee members are here, the record will be made available to them, and it will be carefully reviewed by staff so that those Senators unable to personally attend today will have the opportunity to be informed of your views and every possible consideration will be given to them.

The first witness today is Evan Werling of the French Oil Mill Machinery Co. Mr. Werling, we are delighted you are here. You may proceed.

French Oil Mill Machinery Co.

STATEMENT OF EVAN A. WERLING, VICE PRESIDENT—FINANCE, FRENCH OIL MILL MACHINERY CO.

COMPETITIVE EXPORT PROGRAM

Mr. **Werling.** Thank you very much for the opportunity to appear before your subcommittee, Senator. I have submitted for the record a copy of my written testimony. However, I would like to give verbal testimony which will summarize that, and also relate to what Chairman Draper of the Export-Import Bank had to say last Tuesday.

First of all, our company is an American company, operated out of Piqua, Ohio. We have been in business for 83 years. We export approximately 50 percent of the equipment that we manufacture which is used to extract vegetable oils from oil-bearing seeds.

On Tuesday, Senator Kasten made the comment to the chairman of the Bank that he was a bit confused about what was really going on over at the Eximbank regarding whether or not their programs were competitive. I will say quite frankly that I am also very confused, as a small businessman, because 2 years ago when the President of the United States gave his inaugural address, he said he was going to help put America back to work through a strong competitive export program.

Subsequent to that, we saw the programs of the Eximbank go through a period of time where there was no financing available at all, to a period of time over the past 2 years where the financing has been just totally and literally noncompetitive.

Again, in the 1983 state of the Union address by the President, and I quote you, "We must have adequate export financing to sell American products overseas." Amen. The President really hit the nail on the head.

EXPANSION OF U.S. EXPORTS

Just recently, the President also, speaking before a public group, said one of the best jobs programs we can have in this great Nation is to expand our exports. And that is the start of our program. Exports will put a great dent in the soaring budget deficits of this country.

And he also pointed out that 90 percent of all small- and medium-sized businesses presently are not involved in the export market. At that same time, he encouraged small- and medium-sized businesses to get out there and outplan, outproduce, outsell, and basically whip the pants off of our foreign trade competition.

I will tell you, as far as small business is concerned, we have the products. We have the manufacturing capability, and we have the technology to do just that. But we cannot compete against foreign government competition. I am not talking about foreign competition, I am talking about the foreign government export financing programs.

We especially cannot compete against it when our Government goes out and negotiates a new trade agreement and lending agreement with the OECD countries, and then comes back and refuses to offer American companies those same types of export financing terms and conditions, because at the present time the Eximbank is not competitive in their programs, and they have not been for the past 2 years.

I have been working with the National Federation of Independent Businesses, the National Association of Manufacturers, the U.S. Chamber of Commerce, the Coalition for Employment Through Exports. I can say that I am not aware of anyone in those organizations that would come before this committee and say that the programs to support U.S. exports at the Eximbank are competitive, because they simply are not competitive.

In fact, in the recent February issue of the NFIB magazine, which was just issued here in February, they have an article on page 2 which says,

> In a surprising move, Eximbank cut interest rates charged to U.S. exporters for their loans. The move came as quite a surprise, in light of the Bank's earlier assertions by the Chairman, Mr. Draper, who denied allegations that the Eximbank charged a higher rate than banks in any of the other U.S. trading companies belonging to the OECD organization.

In fact, a scant 2 days prior to the rate reduction which came January 18, Chairman Draper said, and I quote, "We are right there where everybody else is." It is no wonder that Senator Kasten and myself and a lot of other people in the United States are very confused as to what is going on at the Eximbank when the President of the United States tries to promote a strong competitive export financing program, but the programs are not there in fact when it comes to competition.

During the past 2 years our company—and we are small business—we have lost every international export sale where competitive financing was an issue. Everything that we have had to finance, we have lost.

Our company has never had a layoff in its 82-year history. This year, because of noncompetitive financing, we had to terminate one-third of our total employment. I am getting tired of hearing the statements from the Eximbank that their programs are competitive, because they are not competitive at all.

The other day Mr. Draper, Chairman of the Bank, said that the business just is not there. Well, if the business is not there, then why does he not make his programs fully competitive to give American exporters an equal opportunity to compete for the business that is there?

He came before your subcommittee and said we do not need the appropriations that are being recommended by various groups. Well, I fully suggest that they are given the lending authorizations that have been recommended and make their programs fully competitive to give U.S. manufacturers an equal opportunity.

The demand may not be as great as it was 2 years ago, but demand is still there. But American businesses and American workers are not going to get to share in that demand unless we have competitive export financing for our products.

We are mindful of the fact that the Eximbank has a responsibility to equate the cost of their financing with what the lenders make their loans at for foreign buyers. However, I would like to remind this committee that the Bank also has a direct, given its charter, that wherever they perceive subsidies to exist in the export financing market, they have got the responsibility for going out and negotiating an end to those subsidies.

My point is, as a small businessman, if the present administration, including the Bank, does not have the ability to go out and negotiate an end to foreign subsidized financing, then they should not take it out on small business and American labor by putting us out of business and transferring our jobs over to our foreign trade competitors because of unsuccessful negotiations.

[The statement of Mr. Werling follows:]

PREPARED STATEMENT OF EVAN A. WERLING
VICE PRESIDENT—FINANCE
FRENCH OIL MILL MACHINERY COMPANY

INTRODUCTION

Mr. Chairman, members of the Senate Subcomittee on Foreign Operations -- I am Evan A. Werling from the French Oil Mill Machinery Company, which is located in Piqua, Ohio, a community of approximately 20,000 people. French Oil is a small company (employing approximately 250 people) which exports approximately 50% of its sales volume. Our company designs and manufactures machinery used in the extraction of edible vegetable oils (such as soybean oil, corn oil, sunflower oil, etc.), separation of water from sugar cane, dewatering of natural rubber and synthetic polymers as well as the molding of rubber into various products, from tennis balls to automotive engine gaskets.

Our company is a technological leader in its various product lines and is known for its high quality workmanship and product durability. We export to many of the developing countries of the world where there is a dire need for our products, which are used to process raw agricultural products into edible oils and foods for the countries' inhabitants and for animal production. Without this machinery, developing countries are forced to sell their raw agricultural products as commodities -- thus lessening their ability to be self-sufficient and viable importers of other American-made goods.

SMALL BUSINESS
EXPORT FINANCING

During the past two years, the French Oil Mill Machinery Company has not been able to obtain competitive financing from the U.S. Export-Import Bank for any of its potential export sales, and has lost more than $15 million of potential sales to foreign trade competitors, who offered financing (supported by their governments) in accordance with the OECD agreement -- of which the U.S. Government is a participant. Today, French Oil employs approximately 100 fewer people because we could not obtain competitive export financing from the U.S. Eximbank. The sales opportunities were there; competitive financing wasn't!

During 1982 (at the request of Richard R. McElheny of the U.S. Department of Commerce) Messrs. Frederick Amling, Fariborz Ghadar, and Yoon Park of the George Washington University School of Government and Business Administration conducted a study of French Oil and several other small to medium-sized companies to determine the effect Eximbank policy was having on export sales and employment in the United States. Exhibit "A" is a copy of their report and findings dated December, 1982. The primary findings of the study are as follows:

A. "First, the firms we visited are small and medium-sized, well-managed, competitive leaders in their industry, producing superior, price competitive products."

B) "Second, they are losing the competitive battle because their foreign competitors are able to obtain low interest rate financing against which the American firms cannot compete. The foreign loans were as low as 6-1/2 to 7-1/2 percent in 1981 and 1982."

C) "Third, if the U.S. Treasury made low interest rate loans available to exporters, the actual rate of return on its investment would be substantial. At loan interest rates between 6 and 10 percent -- rates that would normally be competitive with loans provided by foreign governments -- the actual return to the Treasury would be between 18-20 percent. In short, export loans are an excellent national investment with the bulk of the returns realized in the first two years."

D) "Fourth, without this investment, at best, we can expect a reduction of employment in the small to medium-sized firms and at worst, the demise of superior companies that are producing superior products in the United States."

On September 16, 1982, before the Senate Banking Committee, Subcommittee on International Finance and Monetary Policy, I presented extensive documentation concerning the financing terms and conditions being offered by our foreign trade competitors and supported by their respective governments. In today's testimony, I have included additional Exhibits ("B" and "C"), which represent export financing being offered by our foreign trade competitors. As you can see from these exhibits, Eximbank medium-term financing for small manufacturers fell far short of the financing terms and conditions offered by foreign trade competitors and supported by their respective governments.

For years, Congress has been trying to encourage small manufacturers to enter the export market. It's no wonder small to medium-sized manufacturers have been less than enthusiastic about export sales when they cannot be assured of an adequate supply of consistently competitive export financing. Even the Eximbank's annual competitiveness report for 1981 (finally released in February, 1983) acknowledged that the medium-term programs are "relatively uncompetitive." The results of a confidential survey of the Bank's clients concluded: "In the opinion of the exporters and bankers surveyed, the absolute value and relative competitiveness of Eximbank deteriorated across the board in FY 1981. No program nor any element of a program was judged to have improved its effectiveness or relative competitive position in 1981. Everything was judged similar to 1980 or worse" - (Exhibit "D"). Also attached (Exhibits "E" and "F") is correspondence between our company and the Bank. You will note that in Exhibit "F" the Chairman acknowledged the noncompetitive position of the Bank's medium-term programs. Competitive medium-term programs are an absolute necessity if we are to reverse the trend of losing U.S. sales and jobs to foreign trade competitors!

RECOMMENDATIONS

The Department of Commerce identifies the greatest opportunity for export growth to be through expansion of small business. Presently, one out of every five manufacturing jobs is export related. Small and medium-sized companies can play a major role in reversing the negative employment situation facing our economy today. However, for this to happen, adquate lending authority and insurance must be available to the Bank to support consistently competitive export financing programs. During the past several years, adequate lending authority has not been available to the Bank.

Our company supports fiscal 1984 direct lending authority of $6.5 billion. Since the Bank receives no taxpayer dollars, it serves no purpose to establish a $3.83 billion direct lending authorization which can be increased at a later date with a $2.7 billion supplemental request. To legislate lending authority on a piecemeal basis will merely encourage the perpetuation of noncompetitive export financing policies. Small business cannot afford to lose more sales and American workers cannot afford to lose more jobs because our government refuses to provide fully competitive export financing in accordance with the agreement it negotiated with other OECD countries.

We support the President's recommendation for $10 billion in loan guarantees.

Numerous proposals have been suggested, such as a "War Chest Fund" to support the Bank's activities. Although the concept of the war chest fund sounds desirable, we would prefer to see the Eximbank's Charter modified to require the Bank to provide fully competitive export financing programs on a regular basis and to assure that all programs are equally competitive. If this is done, and if the Bank is directed to return to Congress for additional lending or insurance authorizations (should it need to do so) rather than weaken export credit programs, supplemental programs such as the war chest fund should not be necessary.

SUMMARY

As a small manufacturer, we would prefer to use the private capital markets to finance export sales. However, when the Federal Reserve Board raises private borrowing rates to levels which are not competitive with financing supported by the governments of our foreign trade competitors, small business has no place to turn but to the U.S. Export-Import Bank. Unfortunately, during the last several years, Eximbank programs have not been competitive. The result has been a loss of export sales -- and a significant loss of American jobs to foreign countries.

Without adequate, fully competitive export financing from the U.S. Export-Import Bank, additional small businesses will be blocked from entering the export market and many existing small businesses will not be able to remain in the export market -- unless they transfer their export production to a foreign country that offers competitive export credit programs. Enactment of Export Trading Company legislation was a positive step toward helping a limited number of small companies in the export market. However, Export Trading Companies will not alleviate the need for fully and equally competitive export financing.

Congress can no longer allow the Eximbank to remain weak and unsupportive of American exports and American jobs. Congress has requested small companies take a more active part in the export market. However, in today's environment, with inadequate Eximbank programs, small manufacturers would be well advised to avoid the export market if medium-term financing is a requirement to support their sales. Congress should not allow inadequate lending authority to be used as an excuse for continued loss of American jobs! Let's stop exporting the jobs of American workers. Let's put America back to work!

(EXHIBIT A)

THE
GEORGE
WASHINGTON
UNIVERSITY

School of Government and Business Administration / Washington, D.C. 20052

Department of
Business Administration
(202)676-6115

December 15, 1982

Mr. K. Gordon Lawless, Chairman
Alabama Export Council
c/o Phifer Wire Products, Inc.
P.O. Box 1700
Tuscaloosa, AL 35406

Dear Mr. Lawless,

It is a pleasure to provide you with a copy of the report of our study "EXPORT CREDIT FINANCING: A Cost-Benefit Analysis to the Federal and State Treasuries" by Amling, Ghadar and Park, which you sponsored and funded through the chapters of the District Export Councils in the U.S. We thank you for your support for this project.

Our principal findings are the following:

First, the firms we visited are small and medium-sized, well managed, competitive leaders in their industry, producing superior, price competitive products.

Second, they are losing the competitive battle because their foreign competitors are able to obtain low interest rate financing against which the American firms cannot compete. The foreign loans were as low as 6 1/2 to 7 1/2 percent in 1981 and 1982.

Third, if the U.S. Treasury made low interest rate loans available to exporters, the actual rate of return on its investment would be substantial. At loan interest rates between 6 and 10 percent--rates that would normally be competitive with loans provided by foreign governments--the actual return to the Treasury would be between 18-20 percent. In short, export loans are an excellent national investment with the bulk of the returns realized in the first two years.

Fourth, without this investment, at best, we can expect a reduction of employment in the small to medium-sized firms and at worst, the demise of superior companies that are producing superior products in the United States.

We hope that our report will help in providing a solution to the problem and that you make the results available to your members.

Sincerely yours,

Frederick Amling

Frederick Amling

Fariborz Ghadar

Yoon Park

Yoon Park

EXPORT CREDIT FINANCING:
A Cost-Benefit Analysis to the Federal and State Treasuries

Frederick Amling

Fariborz Ghadar

Yoon Park

of the

George Washington University

School of Government and

Business Administration

December 1982

Technical Assistance
Provided by:

Marti Kirchner
Lisa Thomas

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This study was made possible by grants from 32 District Export Councils, the Excello Corporation, and the National Machine Tool Builders Association.

The District Export Councils (DECs) are a volunteer organization with over 1,800 business and trade experts as members. The DECs serve as a vital link to the U.S. Department of Commerce serving under the direction of the U.S. and Foreign Commercial Service. Bringing unique resources to the Department's export expansion efforts, each DEC serves as the local contact within their business communities to stimulate interest in overseas markets, supports export awareness and expansion programs and services, and provides an important source of information on export issues under consideration by the Department and the President's Export Council.

District Export Councils are involved in a wide variety of export programs within their local communities. DECs may call on prospective exporters to counsel them in the "ABCs" of exporting, sponsor workshops with the Department's District Offices on international subjects, act as "speakers' bureaus" so that local business organizations may tap the DECs' wide range of expertise, sponsor World Trade Week activities, and promote greater awareness of the assistance available in their community for U.S. companies who are considering the world market.

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EXECUTIVE SUMMARY

Small and medium-sized U.S. businesses are finding it difficult to compete in export markets because of low, subsidized financing provided foreign competitors by the foreign governments. The effect has been a loss of sales and an increase in unemployment for the American firm. Interviews were conducted with the executives of six American firms, geographically disbursed, to determine the extent of the problems, the possible solutions to the problems, and the cost benefit relationships between the cost of a possible stimulus in the form of export credit financing, offered by either the state or federal government, and the benefits generated in the form of increased employment and taxes created by the increased sales. Information for each case was developed based upon assumptions of the interest rates offered on direct loans ranging from 6 to 10 percent, - such rates are thought to be competitive with foreign rates - assumptions about the impact of additionality ranging from 40 to 60 percent, and the multiplier effect ranging from 2 to 3. The range of assumptions of additionality and the multiplier effect were obtained from a summary of findings in a literature review.

The case information was then applied to five alternative export financing stimuli developed from suggestions obtained from export companies throughout the United States. This was the result of a task force of businessmen involved with the district export councils. These are:

(1) A direct loan by a federal institution for 75 percent of the value of the contract.

(2) A direct interest rate equalization payment by a federal organization, such payments to offset the differential between the OECD rate and the existing market rate.

(3) A state-chartered Eximbank that would make direct loans to exporters.

(4) A state facility that would make interest equalization payments to entities offering financing.

(5) A U.S. lender that would offer a competitive rate whereby all interest costs above the competitive rate and up to the market rate would constitute a direct tax credit.

In addition we analyzed the impact that loan guarantee programs by the federal and state governments would have on exports by the six companies interviewed.

The in-depth interviews with the company executives revealed that lack of competitive export financing was a very real problem resulting in lost sales and an increase in unemployment. The executives thought that Eximbank financing was inadequate, untimely or unavailable. The executives thought that federal officials did not know about their problem, did not believe them, or there was a communication gap between business and government.

There was an extreme sense of urgency about the need for help. Generally, the executives feared for the future success of their firms because of the competitive strategies developed by many foreign countries, the lure of United States factories to more abroad,and the feeling that the United States was the only country playing by the rules.

The executives thought that the solution to the problem was the availability of competitive financing, based on terms and interest rates quoted to them in advance, from the Eximbank. They also stressed that insurance for loans against political risk should be more readily available from the FCIA, and this would help some firms dramatically. They also thought that the job should be done immediately by the federal rather than state Eximbank. The executives also suggested that each company be assigned a government contact person who would help them arrange whatever help was available. The executives thought that the solution through State Eximbanks would be too little too late.

The analysis of the six companies bids indicated that a major cause of loss of contracts was due to a lack of competitive export financing. The majority of firms would be able to compete if export financing were available. The remaining companies would not have benefited as much but they would have increased their employment in U.S. plants. The companies were quality and price competitive.

The individual case studies analyzed the loss of specific contracts and their impact on the state, and federal treasury, and on jobs in the U.S. economy. The return to the U.S. economy for direct export credit financing if offered at even as low as 6, 8 and 10 percent financing for every dollar invested would have yielded an annual return of 11 to 21 percent to federal and state treasuries combined assuming 40 percent additionality and a multiplier of 2.0 and returned the original investment. With 60 percent additionality and a 3.0 multiplier, the rate of return to the federal and state treasuries would rise to a range of 21 to 46 percent. The returns for the U.S. treasury revenue stream alone are estimated to be not much lower. The returns for the states alone were not as high as to the federal treasury.In general, however, it is clear that under any reasonable set of assumptions, the return on export credit financing was high enough to justify its offering.

The return on investment to the U.S. treasury for an investment on an export loan would average 20 percent. This average figure is based on the cases studied and assumes a treasury lending rate of 8 percent, a multiplier of 2.5 and an additionality of 50 percent. The 8 percent rate would be competitive with most other countries. If a 6 percent lending rate were assumed - a rate that would meet and compete with all foreign lending rates - the return to the treasury would decline to 18 percent. Simply stated this means that it would be profitable for the U.S. treasury to invest in export loans particularly since the bulk of the returns would be received in the first year. The results have a positive effect on employment and reduce unemployment.

The return to the federal treasury was higher, yet states with individual or corporate income taxes could, in the absence of acceptable federal export financing, justify the offering of export financing to their exporters.

A loan guarantee would make it possible for small and medium-sized firms to obtain credit at an affordable rate whereas without the guarantee the lending rate would be prohibitive or unavailable.

The executives interviewed were enthusiastic about the project and felt privileged to participate in this effort.

The executives asked only to be able to compete on an equal basis with foreign competition. They know that the quality and price of their products with equal financing will make them the competitive leader and increase employment.

Frederick Amling
Fariborz Ghadar
Yoon Park

Washington, D.C.
December 1982

PART I

STATEMENT OF PROBLEM

High U.S. interest rates, a strong dollar and a worldwide recession have made it difficult for U.S. exporters in general and capital goods exporters in particular to sell their products in the international marketplace. This problem is compounded by the fact that many foreign governments have offered a wide variety of export financing schemes that subsidize their own exports, while U.S. subsidies are not as extensive. These subsidized exports are in direct competition with U.S. manufactured products, the great majority of which are competitive in terms of price and quality but not financing. The net effect has been the loss of contracts due to the lack of competitive financing available to U.S. manufacturers.

This environment adversely affects not only traditional exporters who may use fixed rate official U.S. export financing credits through the Eximbank, but also small and medium sized U.S. exporters with smaller transactions who do not have access to such official export credit.

This report was undertaken to determine the extent to which small and medium sized U.S. businesses have been affected in the marketplace by the financial assistance provided to their foreign competitors. The executives of six manufacturing firms were interviewed in depth to find the extent of the problem and a possible solution. Executives of export firms in the private sector provided five financing alternatives designed to assist U.S. exprt producers to meet this apparently growing problem. Based upon the facts obtained from the interviews, the best alternative will be indicated along with a ranking of the effectiveness all the alternatives would have on a sample of six diverse U.S. small and medium size exporters. The report also evaluates the costs and benefits of such schemes on the U.S. economy. The analysis is based on the cost of these incentives to the U.S. treasury, the state treasuries and the U.S. economy, along with the benefits derived from these financial incentives in the form of increased corporate and individual income taxes, increased state and local taxes, as well as the impact on unemployment and its costs to these entities.

As part of this report, a comprehensive literature survey of the subject was undertaken. This is attached to the report as Annexes I and II. The literature review includes studies on the macro impact of export incentives as well as the specific impact of export incentives on various industries. The conclusions of the reports reviewed range from those that argued for the use of export incentives to those that argued against export incentives. In general however, additionality* in exports due to competitive financing in capital goods industries ranges from 30 percent to 70 percent with a more probable range of

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*Additionality represents the marginal increase in exports created by the export incentive.

50 to 60 percent. In other words some 50 to 60 percent of the exports were created because of the export financing schemes. The studies on the effect of export incentives on the national economy as well as industry studies indicated that the multiplier effect* in the economy generally ranges from 1.5 to 3.5 with a more probable range of 2.0 to 3.0. These data are used in Part III to calculate the cost-benefit of various export incentive schemes to the state, U.S. treasury, and U.S. economy.

In Part IV of the report, the analysis of six case studies are summarized. The cases are of companies that have lost contracts due to lack of export financing incentives presented in Part III. Dr. Amling and Dr. Ghadar interviewed chief executive officers of these six corporations based in five different states; Louisiana, Michigan, Ohio, Texas and Washington, and in industries from specialty tools to oil service equipment. Annex III lists the names and titles of persons interviewed. The in-depth case methodology brought a sense of realism to the analysis. Complete knowledge about the competitive marketplace, or real world, is extremely important to understanding the incentives being recommended along with their implementation.

PART II

FIVE ALTERNATIVE EXPORT FINANCING SCHEMES FOR U.S. EXPORTERS

This report reviews the impact of five export financing alternatives on six U.S. small and medium size exporters. The alternatives were developed based on a task force of executives of export firms among the District Export Council. The report evaluates the costs and benefits that such schemes would have on the income stream of the U.S. treasury and the state treasuries combined. The analysis is based on the cost of the incentives to the U.S. treasury, the state's treasury, and the U.S. economy as well as the benefits derived from the additional exports and their repercussions in the economy in the form of increased individual and corporate taxes and decreased unemployment expenditures by the federal and state governments. This is done in Part III for the six cases.

The facts obtained in each case were used to determine the cost effect on the U.S. and state treasuries as a result of the loss of sales. The loss of sales was translated into loss of revenues and the loss of revenues was translated into the loss of jobs for each company.

The data for each case appear in a summary table where the calculations are presented along with detailed footnotes as to how the calculations were made. This is done in Part IV.

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*The multiplier effect relates to the final effect on the economy. A dollar of initial revenues generates $2.50 of revenues if there is a 2.5 multiplier.

This information was then applied to the five alternative export financing schemes provided by the members of the District Export Councils under consideration as a solution to the problem.

The export finance schemes considered are as follows.

(1) A direct loan by a federal institution, such as the Eximbank, for 75 percent of the value of the contract.

(2) A direct interest rate equalization payment by a federal organization such as the Eximbank.

(3) A state export bank that would make direct loans to exporters.

(4) A state-chartered Eximbank that would assist exporters. The state would buy down the interest rate from the market rate offered by commercial banks to a lower subsidized rate competitive with internationally offered export financing rates.

(5) A U.S. lender, either a commercial bank or a supplier of funds, that would offer a competitive rate whereby all interest costs above the competitive rate and up to the market rate would constitute a direct tax credit. Under such a mechanism, the tax credit could be computed on the basis of a monthly average of the 6 month U.S. Treasury bill interest rate plus the interest spread of the commercial bank. The Eximbank would verify the competitive rate offered by the U.S. competitors by means of a certificate. Such a certificate would be used to substantiate the tax credit.

The report will not deal with the legislative and operational needs of the above export financial incentives. What will be addressed, in the following six case studies, is the cost-benefit of each scheme to the federal and state treasury from the impact of such export credit financing on the U.S. economy.

THE ATTRACTIVENESS OF EACH FINANCING ALTERNATIVE

OVERVIEW With the exception of Alternative (1) where the federal government would give a direct loan for 75 percent of the value of the export contract, and alternative (3) where the state offers direct loans, all the finance options involve interest rate equalization schemes. These schemes vary in the fact that different state or federal agencies would pay for the subsidies. We analyzed Alternative (1) and concluded that the return to the federal treasury for Eximbank financing would have an annual return on federal government funds allocated from 13 to 34 percent. This would be an attractive investment for federal funds that cost some 12 percent. The federal government pays 12 cents for every dollar borrowed, yet it would receive a return of 13 to 34 percent each year for funds spent on such programs.

A DIRECT LOAN ALTERNATIVE

For direct loans given by a federal agency, based upon the lowest interest rate example in the first scheme, 6 percent, a multiplier of 2.5, and an additionality of .5 the internal rate of return to the U.S. treasury would be 18 percent. This 6 percent rate would be below the lending rates provided by foreign governments. An 8 percent lending rate, slightly above foreign rates, would provide a 20 percent return on the loans given by the U.S. treasury. This would be a good investment to the treasury as well as stimulate employment.

Alternative scheme 3, where state export banks would offer direct loans were not as attractive. The additional exports do not, in all cases, generate sufficient revenue to the state treasuries to justify state organizations making direct loans. In fact while states such as Ohio and Michigan could obtain returns 1 to 3.5 percent above the rate they charge on the loans, other states such as Texas, simply cannot justify such schemes on the basis of revenues to its state treasury.

INTEREST RATE EQUALIZATION ALTERNATIVE

Alternative Export Schemes (2), a direct federal interest equalization payment; (4), a state Eximbank interest buy down; and (5), a direct tax credit offered by the federal government to lenders for the interest cost above its competitive rate; would generate a positive cash flow in year 1 to the federal treasury since the revenue generated in Year 1, the export year, far exceed any expected future interest rate equalization costs. The question then is not "are such schemes justifiable?", but "which ones cost the least to the federal treasury?" In fact, our analysis of finance schemes (2), a direct federal equalization interest payment; and (4), a state Eximbank buy down of the interest rate, shows that the U.S. treasury would be economically justified in offering annual interest equalization subsidies that range from 4 to 25 percent of the value of the loan depending on assumptions of additionality and the extent of the multiplier effect in the economy, while the state treasuries were justified in interest buy downs of only .1 to 3 percent annually.

Export financing schemes from the states' viewpoint where the federal government pays for interest rate equalization schemes either by direct payments, tax free revenue bonds, or direct tax credits to commercial banks, are more financially desirable to the states. Schemes that have state treasuries pay for them are less desirable. Thus from the states' point of view with only economic considerations, alternatives (2) direct federal agencies interest equalization payments, (5) a direct tax credit offered by the federal government to lenders for the interest cost above the competitive rate are preferable to alternative (4) where the state pays for the interest buy down. In states where state income and corporate taxes are limited, the extent of interest subsidy for export financing that is justified is also limited. States with higher income and corporate taxes will find alternative (4) a state Eximbank buy down more of an option. Alternative (5) a direct tax credit offered by the federal government to lenders for the interest cost above the competitive rate, has an element of uncertainty, since long term export financing is offered with fluctuating short term interest rates. No doubt, the federal agencies would prefer alternative (4) where the state pays for the interest equalization while the state would prefer option (2) and (5) where the federal agencies pay for the interest equalization costs.

LOAN GUARANTEE PROGRAMS

Loan guarantees by the federal or state governments would in effect reduce the cost of loans to small and medium-sized companies by approximately 4 percent annually. In our sample of companies depending on the additionality and multiplier assumption the federal treasury would receive 25 to 55 cents on every dollar of loan guaranteed in the first year in the form of increased tax revenue, and decreases in unemployment payments. The cost to the federal and state treasuries for such guarantees is related to the potential defaults on these loans. Since historic rates of loan defaults are in orders of magnitude lower than the 25 to 55 percent, and since the federal treasury recieves increased taxes and decreases in unemployment payments, it would be advantageous in almost all cases to offer federal guarantees on export loans, unless of course the default rate is expected to be above 25 percent or an average of one in four loans.

State guarantees are much less attractive to the state treasury since it receives an average 2-4 cents on every dollar guaranteed and this is not significantly above the loan default rate. In our sample of six cases loan guarantees would have benefited one company, Columbia Machine Company.

The chief executive officers of the companies interviewed were all in agreement and expressed their opinion that direct interest equalization programs paid for by the federal government agencies would be the most desirable option to cope with the threat of low-cost foreign export credit financing arrangements. They also suggested that federal loan guarantees would help. This is consistent with our findings, as will be seen as the five financing alternatives are applied to the six cases in Part III.

PART III

CASE ANALYSIS OF COST/BENEFIT RELATIONSHIPS OF EXPORT CREDIT FINANCING

COLUMBIA

COLUMBIA MACHINE COMPANY

INTRODUCTION

Drs. Frederick Amling and Fariborz Ghadar visited Columbia Machine Inc. in Vancouver, Washington where they met with Fred Neth, Sr., Chairman of the Board; Walter Neth, Vice President—Special Products; Gordon Smith, Corporate Credit Manager; and John Klattenhoff, Sales Manager, International Sales Division.

STATE OF THE COMPANY

Columbia is a medium-sized firm that manufactures a complete line of machines designed to fabricate building blocks for use in the construction industry, particularly in low cost housing. Prices for its equipment range from $56,000 to $900,000 ex factory and before financing. The total package, including financing, may be as high as $1.5 million. These prices are at the higher end of the industry pricing scale. Columbia equipment, however, produces a higher quality finished product than its competitors. This means that the buyer has lower actual production costs, and that the concrete block is produced faster, is finished smoother and is load-bearing. Columbia is competitive in world markets and currently does business in 71 countries. The largest facility is located in the state of Washington where it employed, until last year, some 700 people. Worldwide, it employed 900 people, but that figure has been cut back to 450 worldwide in the past year.

THE INDUSTRY

Columbia's major competitor in the United States is Besser which for years has been the largest domestic producer of this type of construction equipment. According to Columbia, the main differences between Besser and Columbia are that Besser does not make a complete line of equipment and uses a mechanical process whereas Columbia does make a full line and uses a hydraulic and electronic process. Over the years, Columbia has been growing steadily and the two companies now have about the same volume.

Internationally, Columbia faces competition primarily from companies in Germany, Italy and France. The markets in which the toughest competition is currently taking place are the West Indies, Mexico, South America and Japan.

NEED TO FINANCE EXPORTS

As with most companies dealing in capital goods, an integral part of the sales contract is the financing package. When the competitors are domestic entities, the packages offered usually have similar, if not identical, terms and rates, and the buying decision is based on product quality and price.

Columbia has been financing its sales from internal funds for more than twenty years. Through its local bank, it has a line of credit which it uses to offer the financing. In general, it will have a contract bid that is submitted at well above prime. The foreign buyers, until recently, were accepting these terms because the Columbia rate was usually lower than the local interest rate in the markets in which it operated. The terms range from two to five years usually with a 90 day grace period. The company presently has a portfolio of such loans that amounts to a high seven digit figure.

Columbia has done litte work with the FCIA because its equipment purchasers are usually small and do not have financial statements that would be acceptable to FCIA. In addition, it has had only limited dealings with the Eximbank because its projects are too small to meet Eximbank guidelines. Columbia did obtain an Eximbank guarantee on a project in Reunion but believes that this was only because the U.S. government had an interest in the project. The guarantee shifted recourse from Columbia to the Eximbank and thus increased Columbia's own line of credit with its bank.

In the past few years, as interest rates have gone up, foreign competition has become keener and more recently as the dollar increased in value, the company has become less able to finance its sales. In addition, with a domestic housing industry that is depressed, it must rely more on its overseas sales in order to stay in business. Self-financing is becoming more of a problem because its local bank is beginning to shy away from any international involvement and Columbia's rates are not competitive against the Germans who, according to Columbia, are offering a subsidized rate of 9 percent in U.S. dollars, or the French who, on a project in Kenya, offered a subsidized rate of 6 percent in French Francs.

Currently Columbia faces a contract bid to sell equipment in Germany to a company that has stated it wants Columbia's product. It will be too costly to try to finance the sale at current rates. Columbia, in 1982 was actively looking into the possibility of licensing in Holland where it was assured that it could get 8 percent financing for exports. Its costs would be reduced, also, due to lower freight charges and duties.

IMPACT ON THE FIRM

Columbia had $27 million in sales in 1978, $48 million in 1979, $38 million in 1980 and anticipates sales of $26 million this year. The recent reduction in sales has forced it to reduce its workforce. Columbia's difficulties are twofold. First, its per unit sales are low therefore Eximbank financing is not available. Second, the buyers of the equipment are usually small and do not have established lines of credit. Thus Columbia cannot get FCIA insurance. This is a typical example of how medium-sized businesses are experiencing difficulties in obtaining export credit financing. If export credit financing were made available to Columbia, it would improve its ability to increase exports and prevent further lay-offs of workers. A government guarantee to the banks would help to make this medium-sized firm competitive.

The impact of a loss of one million dollar of sales on the state and federal treasuries based upon circumstances of the company is shown in Table 1. In the table you will see the loss of revenue to the federal, state and federal and state treasuries combined as a result of a loss of $1,000,000 of sales to Columbia. The way these estimates were derived is found in the footnotes to the table.

Table 1

COLUMBIA MACHINE COMPANY

TAX REVENUES LOST AND UNEMPLOYMENT COMPENSATION PAID DUE TO LOSS OF EXPORTS

	Federal	State	Total
Federal Income taxes lost	$ 65,304[1]		$ 65,304
State income taxes lost		$ 0[2]	
FICA lost	53,587[3]		53,587
Unemployment Compensation	29,925[4]		29,925
Sales tax lost		4,309[5]	4,309
Corporate income taxes lost	39,100[6]	0[7]	39,000
TOTAL	$ 187,916	$4,309	$192,225

Notes:

1) According to Columbia, approximately 40 percent of its sales price is allocatable to labor and the average annual wages received by employees, including fringe benefits, is $30,000. Using this as a base, federal income taxes were based on the 1981 Tax Tables for married persons filing jointly claiming two dependents and not itemizing deductions. Federal income tax computed in this manner was $4,899. X 13.3 man years on a $1 million contract.
2) The state of Washington has no individual state income tax.
3) FICA (social security taxes) was computed at 13.4 percent of gross wages with 6.7 percent contributed by the employer and 6.7 percent by the employee. The ceiling on this tax is $32,400 of income. The computation is 40 percent times $1,000,000 times 13.4 percent, or $53,587.
4) Maximum unemployment benefits were computed as being 30 percent of wages for a period of six months or a total of $2,250 per laid off employee per year. (13.3 x $2,250 = $29,925) It is assumed that the unemployment benefit indirect impact is on the federal treasury. Unemployment payments are made by the firm and subtracted from the companies revenue, thus reducing federal taxes. These payments go to the federal and state unemployed benefit accounts and disbursed by the state. However, the impact of such payments is an increase unemployment reduction by the firm, 50 percent of which comes from the federal treasury.
5) The sales tax figures were computed according to the 1981 Optional Sales Tax Tables as compiled by the Internal Revenue Service and were based on total income of $30,000 with 3-4 family members or $324 per worker. ($324 x 13.3 = $4,309)
6) Corporate income tax was based on an 8 1/2 percent profit which was Columbia's estimated profit rate in 1982 on sales and taxed at 46 percent by the federal government. ($1,000,000 x 8.5 percent X 46 percent = 39,100)
7) The state of Washington has no state tax on corporations.

Columbia Table 2 identifies the stream of earnings generated for the federal and state treasuries from export credit financing on 75 percent of the value of a $1 million sales contract. The analysis is done for an 8 percent loan and assumes an additionality of 50 percent due to the export financing and a multiplier of 2.5. As can be seen, the internal rate of return (IRR) on such direct export credits by the federal government would be 25 percent to the U.S. treasury. If this financing were undertaken by the state treasury, the IRR would have been only marginally higher than the interest rate of 8 percent. The combined IRR to the federal and state treasuries would have been 25 percent.

To further expand on Table 2, it assumes a loan of $750,000 paid by the federal or state treasury. This amount is dispersed in year zero - in other words the beginning of year one - and is a cash outflow as a result of the loan by the agency involved. (See column 2). Column 3 shows the loan repayment schedule used which in this case is five equal annual payments of $150,000 commencing at the end of year 1. Column 4 calculates the interest payments received at 8 percent, on the outstanding loan amount by the borrower. Column 5 is the summation of columns 3 and 4. The first line of columns 6, 7, and 8 show the revenue received by the federal treasury, state treasury, and both combined in year one as a result of the reversal of tax outflows. This data was calculated in Table 1 and represents the cumulative impact of lost taxes and unemployment costs. In this case the gain to the federal treasury is $187,916, the state $4,305 and combined is $192,225. These figures are multiplied by the multiplier figure of 2.5 and the additionality of 50 percent (.5) assumed in this specific case giving positive cash flows to the federal treasury, state treasury, and both combined of $235, $5, and $240 thousand respectively in year one. The remaining lines on columns 6, 7, and 8 represent principal and interest payments on the loan. The net outlay and revenue to the state and federal treasuries and both combined are shown in columns 9, 10, and 11.

In Table 2 column 9, 10, and 11 the net outlay of funds and the repayment of the loan with interest are presented for federal and state treasuries and combined federal and state treasuries. In order to measure the attractiveness of each scheme it was necessary to calculate the rate of return that would be earned on the amount invested in the loan to the company by either the federal or state treasuries. The methodology used to measure the return on an uneven flow of revenue is the internal rate of return (IRR). When the discounted cash flow rate is found that makes the stream of earnings equal to that of the stream of expenses (in this case the loan) the IRR is established. This return is a measure of what is earned annually on the investment which is the loan made by the appropriate agency.

The internal rate of return (IRR) of the revenue stream of columns 9, 10, and 11 are calculated and are shown in the bottom line of the table and are 25, 8, and 25 percent for the federal treasury, state treasury, and a combined return for both treasuries respectively. This figure implies that for example in column 9 if the federal treasury had actually loaned $750,000 for financing $1 million of exports, assuming a 50 percent additionality and a 2.5 multiplier, with a five year equal annual loan repayment schedule at an interest rate of 8 percent it would in effect have received an annual return on its loan of 25 percent. (This is also the discounted rate that gives a zero net present value to the stream of earnings.) This is a rather favorable return to the federal treasury. This analysis was used in all the subsequent case studies.

Table 2

COLUMBIA MACHINE COMPANY

THE INTERNAL RATE OF RETURN OF STREAMS OF EARNINGS AND OUTLAYS RESULTING FROM DIRECT LOANS BY FEDERAL AND STATE TREASURIES (IN THOUSANDS OF DOLLARS)

Column (1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Year	Loan	Loan Repayment	Interest at 8 percent	Total	Savings & Revenues to federal treasury	Savings & Revenues to state treasury	Savings & Revenues to Federal & state treasuries
0	750				235[a]	5[c]	240[e]
1		150	60	210	210[b]	210[d]	210
2		150	48	198	198	198	198
3		150	36	186	186	186	186
4		150	24	174	174	174	174
5		150	12	162	162	162	162

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[a] The saving to the federal treasury was obtained from Table 1 and was calculated as $188,000 X a multiplier of 2.5 and an additionality ratio of .5 obtaining a figure of $235,000.

[b] This represents an annual repayment of the loan with $150,000 to principal and the remainder for interest. This would apply to Scheme 1 where a loan would be made by an agency of the federal government for 75 percent of the contract. This is assumed to be a competive rate.

[c] This assumes a gain of revenue to the state as a result of the loan and is calculated as $4,000 X a multiplier of 2.5 and an additionality rate of .5. This was obtained from the data in Table 1 and is considered to be revenue to the state.

[d] In this case the state makes the loan and corresponds to scheme 3. Scheme 3 represents the case where a state chartered Eximbank makes the loan.

[e] Combined effect on the federal and state treasuries as a result of the gain in sales resulting from the loan and a reversal of the flows back into the treasuries. It does not take into consideration whether it is a benefit to the state or federal government. This is a proxy on the total effect on the U.S. economy assuming there was no interstate purchases resulting from the contract.

NET OUTLAYS AND REVENUE FOR CALCULATING THE INTERNAL RATE OF RETURN (IRR) IN THOUSANDS OF DOLLARS

(9) Federal		(10) State		(11) Both	
Net Outlay	Principal + Interest	Net Outlay	Principal + Interest	Net Outlay	Principal + Interest
515		745		510	
	210		210		210
	198		198		198
	186		186		186
	174		174		174
	162		162		162
Internal Rate of Return %	25		8		25

This analysis was carried out for export credit financing interest rates of 6, 8 and 10 percent, for three multipliers (2, 2.5 and 3), and three additionality (40, 50 and 60 percent) assumptions. The results are summarized below in Colombia Table 3. As can be seen, the IRR to the federal treasury ranges from 15 to 42 percent. Thus, given the federal borrowing rate, a direct export loan financing scheme offering even 6 percent export funds by the federal government would still be justifiable to the U.S. treasury. The return to the state treasury however is only marginally higher than the interest rate at which they offer the funds. This is primarily due to the fact that the state of Washington has no individual or corporate state taxes.

The revenue streams were then analyzed with a view to calculating the extent of interest rate equalization by the federal and state treasuries that the revenue streams justified. In the case of Columbia Machine Company, the financing schemes where the federal government subsidized interest rates were justifiable within all the multiplier and additionality assumptions. Given the fact that a loan of $750,000 would generate (in our example of Table 2) $235,000 or about 30 percent of the loan value in tax revenues and decreased unemployment expenditures in year one, assuming these funds were placed in an account earning 10 percent annually then during the five years duration of the loan the federal treasury would be able to offer an average annual interest equalization subsidy of 15 percent annually of the value of the loan. In fact the varying additionality and multiplier rates assumed in our cases made annual interest equalization subsidies of 10 to 25 percent of loan value justifiable to the federal treasury. The state treasury however did not generate enough additional revenues to justify even an annual 1 percent interest rate equalization subsidy.

Similarly in this specific case since in year 1 the loans would generate $235,000 to the federal treasury loan guarantees would be justifiable if less than a third $\frac{\$235{,}000}{\$750{,}000}$ were defaulted. From the state's point of view since only $5,000 of revenue is generated default rates of even one percent would make state loan guarantees unjustifiable.

COLUMBIA MACHINE COMPANY

Table 3

INTERNAL RATE OF RETURN TO THE FEDERAL AND STATE TREASURIES*

6 percent Lending Rate				8 percent Lending Rate				10 percent Lending Rate			
Federal Treasury											
M	A** 40	50	60	M	A** 40	50	60	M	A** 40	50	60
2	15	20	21	2	18	23	24	2	20	25	27
2.5	20	22	27	2.5	23	25	30	2.5	25	28	33
3	21	27	35	3	24	30	38	3	27	33	42
State Treasury											
	40	50	60		40	50	60		40	50	60
2	6	6	6	2	8	8	8	2	10	10	10
2.5	6	6	6	2.5	8	8	8	2.5	10	10	10
3	6	6	7	3	8	8	8	3	10	10	10
Federal and State Combined											
	40	50	60		40	50	60		40	50	60
2	15	20	21	2	18	23	24	2	20	25	27
2.5	20	22	27	2.5	23	25	30	2.5	25	28	33
3	21	27	35	3	24	30	38	3	27	33	42

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*for a 75 percent Export Financing loan at 6, 8, and 10 percent, interest for various multiplier, and additionality assumptions.

** 'A' represents additionality in percent; 'M' represents multiplier effect.

Thus in the case of Columbia Machine Company the results for each alternatives are summarized.

- Scheme 1	Direct export loan by federal government would yield an annual return to the federal treasury of 15 - 42 percent.
- Scheme 2	Direct interest rate equalization payments by a federal organization was justified by an amount of 10 -25 percent.
- Scheme 3	Direct export loan by state government would yield an annual return only marginally higher than the interest rate charged on the loan.
- Scheme 4	State buy down of interest rates to market were only justified by less than one percent of the outstanding value of the loan annually.
- Scheme 5	Federal tax breaks on interest equalization schemes justified from 10-25 percent annually.

- Export loan guarantees by federal government are justifiable if defaults do not exceed 25 - 55 percent of loans.

- Export loan guarantee by state government are justifiable if defaults do not exceed .5 - 1 percent of the loans.

THE CROSS COMPANY

INTRODUCTION

Drs. Frederick Amling and Fariborz Ghadar visited Ralph E. Cross, Jr., President; Robert T. Jeffares, Vice President-Finance and Treasurer, Cross & Trecker Corporation; Robert H. Lambertsen, Vice President Marketing and Thomas Evans, Sales Manager, Export.

STATE OF THE COMPANY

The Cross Company is a medium-sized firm that manufactures specialized machine tools and transfer machinery primarily for the automobile industry for sale both domestically and abroad. Cross has three plants in the United States and facilities or subsidiaries in West Germany, Switzerland and the United Kingdom with total sales of $200 million. In the past two years, Cross has lost $75 million in business and has cut its work force from 2,000 to 900.

THE INDUSTRY

Domestically, there are six to ten companies which produce specialized machine tools and transfer equipment with about $1 billion in total sales. Internationally, Cross must compete with firms in Japan, Germany, Italy, France and Canada. Cross has lost access to the markets in Japan and the Far East due to the excess capacity and competition from the Japanese firms. In France and Italy the major purchasers of the equipment produced by Cross (Renault and Fiat) are government-controlled and they tend to purchase from local companies. In addition, due to a United States foreign policy decision, all Eastern Bloc countries are now closed.

NEED TO FINANCE EXPORTS

For the first time in Cross's history, its major customers, the automobile manufacturers, are asking that financing terms be included in the bids. As an example, one of Cross's major customers, the Ford Motor Company, used to pay net 30, but as of two years ago, Ford has had to have financing in order to buy the equipment it needs.

In 1981, Ford Mexico requested Cross to bid on a $20 million contract. The Eximbank quoted Cross a rate of 12 percent. Because of the high rate, Cross routed the contract bid through its UK subsidiary where ECDG offered to finance 85 percent of the loan for seven years at 7 3/4 percent in dollars. There was no question of price and/or quality being the deciding factor--just financing.

In another $20 million contract bid with Ford Tractor, the Eximbank offered to finance 75 percent of the loan at 12 percent for 14 years with a two year grace period. Again the contract was routed through the UK subsidiary because it had obtained 85 percent financing at 7 3/4 percent for seven years with a two year grace period.

While all of Cross's foreign competitors, as well as its own foreign subsidiaries, are receiving subsidized financing from the local governments, Cross believes that most of its bids are being lost to companies, including its own subsidiary, in the UK. The ECDG from what is known in the past has stated that it will match any other subsidized loan to insure that UK companies can compete effectively for contracts. Recently it has been learned that it ECDG has raised its lending rate to the 10-11 percent level.

IMPACT ON THE FIRM

As stated, Cross has lost $75 million in contracts in one year alone. This is paritally due to the world recession, but is also due to competition from foreign firms. In a study prepared by Cross, it computed that the loss of a $20 million contract would result in a reduction of 800 jobs—both for the company and for its subcontractors. The impact on the state and U.S. treasuries that results from the loss of this $20 million contract is shown in Table 1, based upon circumstances of this company. In the table you will see the loss of revenue to the federal, state, and federal and state treasuries combined as a result of a loss of $20 million of sales by Cross Company. The way these estimates were derived is found in the footnotes to the table.

Table 1

CROSS

TAX REVENUES LOST DUE TO LOSS OF EXPORTS

	Federal	State	Total
Federal income taxes lost	$1,632,837[1]		$1,632,837
State income taxes lost		$439,954[2]	439,954
FICA lost	1,339,866[3]		1,339,866
Unemployment Compensation	750,000[4]		
Sales tax lost		86,991[5]	86,991
Corporate Income taxes lost	——[6]	117,500[7]	117,500
TOTAL	$3,722,628	$644,445	$4,367,073

Notes:

1) According to Cross, approximately 50 percent of its sales price is allocatable to labor and the average annual wages received by its employees, including fringe benefits, is $30,000. Using this as a base, federal income taxes were based on the 1981 Tax Tables for married persons filing jointly claiming two dependents and not itemizing deductions. Federal income tax computed in this manner was $4,899. X 333.3 man years on a $20 million contract.

2) The state of Michigan has a flat individual tax rate of 4.6 percent.

3) FICA (social security taxes) was computed at 13.4 percent of gross wages; 6.7 percent contributed by the employer and 6.7 percent by the employee. The ceiling on this tax is $32,400 of income. The compensation is 50 percent times $20 million times 13.4 percent or $1,339,866.

4) Maximum unemployment benefits were computed as being 30 percent of wages for a period of six months or a total of $2,250 per laid off employee per year. (333.3 x $2,250 = 750,000). It is assumed that the unemployment benefit indirect impact is on the federal treasury. Unemployment payments are made by the firm and subtracted from the companies revenue, thus reducing federal taxes. These payments go to the federal and state unemployed benefit accounts and disbursed by the state. However, the impact of such payments is an increase unemployment reduction by the firm, 50 percent of which comes from the federal treasury.

5) The sales tax figures were computed according to the 1981 Optional Sales Tax Tables as compiled by the Internal Revenue Service and were based on total income of $30,000 with 3-4 family members or $261 per worker. ($261 x 333.3 = $86,991)

6) Corporate income tax was based on 8 percent profit on sales and taxed at 46 percent by the federal government and was computed to be, in this example, $736,000. However a subsidiary or another U.S.firm won this contract, which implies that the federal treasury did collect corporate taxes on the profit, this $736,000 will not be included here.

7) The state of Michigan has a single business tax which is an added value tax. It was computed by adding cash compensation, accrued benefits, depreciation and interest expenses to federal taxable income, subtracting royalties and interest income and a statutory exclusion of $40,000 and multiplying the result by .0235 percent. For purposes of this study, this figure is computed as $117,500.

Cross Table 2 identifies the stream of earnings generated for the federal and state treasuries from export credit financing on 75 percent of the value of a $20 million sales contract. The analysis is done for an 8 percent loan and assumes an additionality of 50 percent due to the export financing and a multiplier of 2.5. As can be seen, the internal rate of return (IRR) on such direct export credits by the federal government would be 18 percent to the U.S. treasury. If the financing was undertaken by the state treasury, the IRR would have been only marginally higher than the interest rate of 9 percent. The combined IRR to the federal and state treasuries would have been 21 percent.

To further expand on table 2, it assumes a loan of $15,000,000 paid by the federal or state treasury. This amount is dispensed in year zero - in other words the beginning of year one - and is a cash outflow as a result of the loan by the agency involved. (see Column 2). column 3 shows the loan repayment schedule used which is five equal annual payments of $3 million commencing at the end of year 3. Column 4 calculates the interest payments received, at 8 percent, on the outstanding laon amount by the borrower. Column 5 is the summation of Columns 3 and 4 and represents repayment of principal and interest. The first line of Columns 6, 7, and 8 show the revenue received by the federal, state, and combined treasuries in year one as a result of the reversal on tax outflows. This data is calculated in table 1 Cross Company and represents the cumulative impact of the cost of taxes and unemployment costs. In this case the gain to the federal treasury is $3,723, the sate $644, and combined $4,367 thousand. These figures are multiplied by the multiplier figure of 2.5 and the additionality of 50 percent assumed in this specific case giving positive cash flows to the federal treasury, state treasury, and both combined of 4654, 805, and 5459 thousand dollars repectively in year one. The remaining lines on Columns 6, 7, and 8 represent principal and interest payments on the loan. The net outlay (loan amount) and revenue to the federal, state and combined treasuries are shown in columns 9, 10, and 11.

Table 2

THE INTERNAL RATE OF RETURN OF STREAMS OF EARNINGS AND OUTLAYS RESULTING FROM DIRECT LOANS BY FEDERAL AND STATE TREASURIES

(IN THOUSANDS OF DOLLARS)

Columns (1) Year	(2) Loan	(3) Loan Repayment	(4) Interest at 8 percent	(5) Total	(6) Savings and Revenues to federal treasury	(7) Savings and Revenues to state treasury	(8) Savings and Revenues to federal and state combined
0	15,000				4,654[a]	805[c]	5,459[e]
1		1,200			1,200	1,200	1,200
2		1,200			1,200	1,200	1,200
3		3,000	1,200		4,200[b]	4,200[d]	4,200
4		3,000	960		3,960	3,960	3,960
5		3,000	720		3,720	3,720	3,720
6		3,000	480		3,480	3,480	3,480
7		3,000	240		3,240	3,240	3,240

[a] The saving to the federal treasury was obtained from Table 1 and was calculated as $3,722,628 X a multiplier of 2.5 and an additionality ratio of .5 obtaining a figure of $4,654,000.

[b] This represents an annual repayment of the loan with $3,000 to principal and the remainder for interest. This would apply to Scheme 1 where a loan would be made by an agency of the federal government for 75 percent of the contract. This is assumed to be a competive rate.

[c] This assumes a gain of revenue to the state as a result of the loan and is calculated as $664,445 X a multiplier of 2.5 and an additionality rate of .5. This was obtained from the data in Table 1 and is considered to be revenue to the state.

[d] In this case the state makes the loan and corresponds to scheme 3. Scheme 3 represents the case where a state chartered Eximbank makes the loan.

[e] Combined effect on the federal and state treasuries as a result of the gain in sales resulting from the loan and a reversal of the flows back into the treasuries. It does not take into consideration whether it is a benefit to the state or federal government. This is a proxy on the total effect on the U.S. economy assuming there was no interstate purchases resulting from the contract.

NET OUTLAYS AND REVENUE FOR CALCULATING THE INTERNAL RATE OF RETURN (IRR) IN THOUSANDS OF DOLLARS

	(9) Federal		(10) State		(11) Both	
	Net Outlay	Principal + Interest	Net Outlay	Principal + Interest	Net Outlay	Principal + Interest
	10,346		14,195		9,541	
		1,200		1,200		1,200
		1,200		1,200		1,200
		4,200		4,200		4,200
		3,960		3,960		3,960
		3,720		3,720		3,720
		3,480		3,480		3,480
		3,240		3,240		3,240
Internal Rate of Return %		16		9		18

In Table 2 columns 9, 10, and 11 the net outlay of funds and the repayment of the loan with interest are presented for federal and state treasuries and both combined. In order to measure the attractiveness of each scheme it was necessary to calculate the rate of return that would be earned on the amount invested in the loan to the company by either the federal or state treasuries. The methodology used to measure the return on an uneven flow of revenue is the internal rate of return (IRR). When the discounted cash flow rate is found that makes the stream of earnings equal to that of the stream of expenses (in this case the loan) the IRR is established. This return is a measure of what is earned annually on the investment which is the loan made by the appropriate agency.

The internal rate of return (IRR) of the revenue stream of columns 9, 10, and 11 are calculated and are shown in the bottom line of the table and are 18, 9 and 21 percent for the federal treasury, state treasury, and both combined repectively. This figure implies that for example in column 9 if the federal treasury had actually loaned $15 million for financing $20 million of exports, assuming a 50 percent additionality and a 2.5 multiplier, with a loan at 8 percent it would in effect have received an annual return on its loan of 18 percent. This is a rather favorable return to the federal treasury.

This analysis was carried out for export credit financing interest rates of 6, 8 and 10 percent, for three multipliers (2, 2.5 and 3), and three additionality (40, 50 and 60 percent) assumptions. The results are summarized below in Cross Table 3. As can be seen, the IRR to the federal treasury ranges from 15 to 32 percent. Thus, given the federal borrowing rate, a direct export financing scheme offering 6 percent funds export by the federal government would still be justifiable to the U.S. treasury. The return to the state treasury is 1 to 3 percentage points higher than the interest rate at which it offers funds.

Table 3

INTERNAL RATE OF RETURN TO THE FEDERAL AND STATE TREASURIES FOR VARIOUS MULTIPLIER AND ADDTIONALITY ASSUMPTIONS AND 75 PERCENT EXPORT FINANCING.

Federal

	6 percent				8 percent				10 percent		
M	A* 40	50	60	M	A* 40	50	60	M	A* 40	50	60
2	12	14	15	2	14	16	17	2	16	8	19
2.5	14	16	18	2.5	16	18	21	2.5	18	20	24
3	15	18	22	3	17	21	25	3	19	24	28

State

	40	50	60		40	50	60		40	50	60
2	7	7	7	2	9	9	10	2	10	11	12
2.5	7	7	8	2.5	9	9	10	2.5	11	11	12
3	7	8	8	3	10	10	11	3	12	12	13

Federal and State Combined

	40	50	60		40	50	60		40	50	60
2	15	17	18	2	17	19	20	2	19	21	22
2.5	17	19	22	2.5	19	21	24	2.5	21	23	27
3	18	22	26	3	20	24	29	3	22	27	32

* 'A' represents additionality in percent; 'M' represents multiplier effect.

The revenue streams were then analyzed with a view to calculating the extent of interest rate equalization by the federal and state treasuries that the revenue streams justified. Given the fact that a loan of $15 million would generate (in our sample of Table 2) $4,654 thousand on about 30 percent of the loan value in tax revenues in year one, assuming these funds were placed in an account earning 10 percent annually, then during the loan period the federal treasury would be able to offer an average interest rate equalization subsidy of 7 to 8 percent annually on the value of the loan. In the case of Cross Company, within all the multiplier and additionality assumptions, interest equalization subsidies would be economically justifiable. In fact, annual interest equalization subsidies justified by the federal treasury (depending on our assumptions) ranged from 5 to 11 percent of the loan value. The state treasury however was justified in an interest equalization subsidies of 1.5 to 3.5 percent of the loan value.

In the Case of Cross Company the alternatives are summarized as follows:

- Scheme 1	Direct export loan by the federal government would yield an annual return to the treasury of 14 to 25 percent.
- Scheme 2	Direct interest rate equalization payments by a federal organization was justified by an annual amount of 5 to 11 percent of loan value.
- Scheme 3	Direct Export loan by state government would yield an annual return only 1 to 3 percents higher than the rate charged on the loan.
- Scheme 4	State buy down and interest rate equalizations were only justifiable by an annual amount of 1.5 to 3.5 percent of the loan value.
- Scheme 5	Federal tax breaks on interest equalization schemes were justified by an annual amount of 5 to 11 percent of loan value.

- Export loan guarantees by the federal government were justifiable if defaults did not exceed 20 to 40 percent of loan value.

- Export loan guarantees by state government were justifiable if defaults did not exceed 1.5 to 3 percent of loans.

FRENCH OIL MILL MACHINERY CO.

INTRODUCTION

Dr. Frederick Amling and Dr. Fariborz Ghadar visited Piqua, Ohio, where they spoke to Daniel P. French, President of the French Oil Mill Machinery Co., and Evan A. Werling, Vice President and Treasurer of the same organization. The company officers were delighted and felt privileged to participate in this study.

STATE OF THE COMPANY

French Oil Mill Machinery (FOMM) is an 82-year old privately owned company, currently employing 315 people, that manufactures screw presses and processing equipment for use in all segments of the oil seed industry, the natural rubber industry, the natural palm oil industry and the solvent extraction industry. FOMM is recognized worldwide as a manufacturer of top quality machinery of both standard and custom design. In addition to new equipment, it deals in repair/replacement parts. Approximately 50 percent of its total sales, $22 million last year, were derived from exports. While FOMM has been considered the 'Cadillac' of the industry, its prices have always been competitive. In fact, it can sell its best quality product at the same price as its competitors' lower quality products.

THE INDUSTRY

Domestically, FOMM has one competitor, namely Anderson International in Cleveland. Currently it is believed that Anderson is facing severe financial difficulties and has been acquired by another company to manufacture only replacement parts. Internationally, however, FOMM faces competition from Belgian, French, German, and Netherland companies.

NEED TO FINANCE EXPORTS

As with most companies dealing in capital goods, an integral part of the sales contract is the financing package. When the competitors are domestic entities, the packages offered usually have similar, if not identical, terms and rates and the buying decision is based on product quality and price.

However, if the U.S. firm exports its product and is faced with foreign competition, the financial package offered must also compete with those of rival foreign producers.

If the foreign producer is able to offer better terms to the buyer due to government-sponsored supports and subsidies, it is often able to undercut the U.S. firm's financing packages and win the sale. This means of course that the U.S. firm loses the sale of the equipment because the buying decision was based on the financial package rather than on the quality of the product.

The world economic recession has created an environment where more and more foreign governments offer their firms subsidies in the form of low interest rate loans, at rates below those available in the U.S. This attractive financing to buyers is a major determinant as an incentive to tilt the competitive battle against the U.S. producer in favor of the foreign producer.

IMPACT ON THE FIRM

FOMM had an order backlog of between eight and fourteen months, and until two years ago, that was sufficient to maintain an annual sales level of $25 million. Currently, FOMM faces grave problems in that it is no longer able to compete with non-U.S. competitors in the export market, which represents 50 percent of its total sales because it is unable to obtain medium term financing packages for its customers which are competitive with those offered by their foreign rivals.

FOMM is unable to get competitive financing for its buyers through the Eximbank or insurance from other governmental organizations such as the FCIA. In addition, it is unable to get financing from international banks because its requirements are too small for the international banks to consider it seriously. Regional and local banks do not have the international expertise or the capital necessary to support the export financing needs of small firms such as FOMM, nor can they meet the financial terms provided by foreign governments.

However, its competitors in France, Belgium and U.K. are able to offer better financing packages to customers because their governments are willing to offer below market financing for their nations' export sales.

Unlike many larger U.S. companies, FOMM is not big enough to establish subsidiaries in such countries in order to take advantage of the subisdies offered by those governments. In a sense FOMM has been forced to compete against foreign governments not just foreign firms.

In studying the contract bids lost by FOMM to foreign competitors, we see that the interest rates offered by these companies were four and five percentage points below the rates quoted to FOMM by U.S. commercial banks. It has been shown that FOMM has lost export sales because of its inability to offer financing packages that were competitive with foreign rivals. In fact, to date, FOMM has lost $15 million in bookings this year alone due solely to its inability to offer financing.

This year, with its expected sales level of $12 million, about half of last year's sales, it is likely that the company will have to reduce its work force significantly. Conservative estimates are that such a sales reduction will result in a work force reduction of 30 percent (± 5) and a loss of almost $2 million in salaries. The immediate impact of the outcome on the federal and states treasuries is calculated in Table 1. The way these estimates were derived is found in the footnotes to the table.

Table 1

FRENCH OIL MILL MACHINERY CO.

TAX REVENUE LOST AND UNEMPLOYMENT COMPENSATION PAID DUE TO LOSS OF EXPORTS

	Federal	State	Total
Federal income taxes lost	\$708,571[1]		\$708,571
State income taxes lost		\$94,286[2]	94,286
FICA lost	804,000[3]		804,000
Unemployment Compensation	450,450[4]		450,450
Sales tax lost		55,484[5]	55,484
Corporate income taxes lost	828,000[6]	155,575[7]	983,575
TOTAL	\$ 2,791,021	\$ 305,345	\$ 3,096,366

Notes:

1) According to FOMM, approximately 40 percent of its sales price is allocatable to labor and the average annual wages received by employees, including fringe benefits, is \$21,000. Using this as a base, federal income taxes were based on the 1981 Tax Tables for married persons filing jointly claiming two dependents and not itemizing deductions. Federal income tax computed in this manner was \$2,480 X 286 workers laid off.

2) The state of Ohio individual tax rate for incomes beween \$20,000 and \$40,000 was \$300 plus 3 percent of excess over \$20,000. In this case, it was computed at \$330 per worker.

3) FICA (social security taxes) was computed at 13.4 percent of gross wages with 6.7 percent contributed by the employer and 6.7 percent by the employee. The ceiling on this tax is \$32,400 of income. The computation is 40 percent times \$15 million times 13.4 percent or \$804,000.

4) Maximum unemployment benefits were computed as being 30 percent of wages for a period of six months or a total of \$1,575 per laid off employee per year. (286 times \$1,575 = \$450,450). It is assumed that the unemployment benefit indirect impact is on the federal treasury. Unemployment payments are made by the firm and subtracted from the companies revenue, thus reducing federal taxes. These payments go to the federal and state unemployed benefit accounts and disbursed by the state. However, the impact of such payments is an increase unemployment reduction by the firm, 50 percent of which comes from the federal treasury.

5) The sales tax figures were computed according to the 1981 Optional Sales Tax Tables as compiled by the Internal Revenue Service and were based on total income of \$21,000 with 3-4 family members or \$194 per worker. (\$194 X 286 = \$55,484)

6) Corporate income tax was based on 12 percent profit on sales and taxed at 46 percent by the federal government. (\$15 million times 12 percent times 46 percent or \$828,000)

7) The state of Ohio has a corporate income tax of 4.6 percent on the first \$25,000 and 8.7 percent on anything in excess of \$25,000. The state corporation income tax so computed equals \$155,575.

French Oil Mill Machinery Co. Table 2 identifies the stream of earnings generated for the federal and state treasuries from export credit financing on 75 percent of the value of a $15 million sales contract. The analysis is done for an 8 percent loan and assumes an additionality of 50 percent due to the export financing and a multiplier of 2.5. As can be seen, the internal rate of return (IRR) on such direct export credits by the federal government would be 19 percent to the U.S. treasury. If this financing were undertaken by the state treasury, the IRR would have been only marginally higher than the interest rate of 9 percent. The combined IRR to the federal and state treasuries would have been 25 percent.

For an explanation of the methodology used to derive these figures please see pages 13-16 in the Columbia Machinery Case.

Table 2

FRENCH OIL MILL COMPANY

THE INTERNAL RATE OF RETURN OF STREAMS OF EARNINGS AND OUTLAYS

OUTLAYS RESULTING FROM DIRECT LOANS BY FEDERAL AND STATE TREASURIES

(IN THOUSANDS OF DOLLARS)

Columns (1) Year	(2) Loan	(3) Loan Repayment	(4) Interest at 8% percent	(5) Total	(6) Savings and Revenues to federal treasury*	(7) Savings and Revenues to state treasury*	(8) Savings and to federal and state combined*
0	11,250				3489[a]	381[c]	3870[e]
1			900	900	900	900	900
2		1,875	900	2775	2775[b]	2775	2775
3		1,875	750	2625	2625	2625	2625
4		1,875	600	2475	2475	2475	2475
5		1,875	450	2325	2325	2325	2325
6		1,875	300	2175	2175	2175	2175
7		1,875	150	2025	2025	2025	2025

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[a] The saving to the federal treasury was obtained from Table 1 and was calculated as $2,791,000 X a multiplier of 2.5 and an additionality ratio of .5 obtaining a figure of $3,489,000.

[b] This represents an annual repayment of the loan with $1,875,000 to principal and the remainder for interest. This would apply to Scheme 1 where a loan would be made by an agency of the federal government for 75 percent of the contract. This is assumed to be a competive rate.

[c] This assumes a gain of revenue to the state as a result of the loan and is calculated as $381,000 X a multiplier of 2.5 and an additionality rate of .5. This was obtained from the data in Table 1 and is considered to be revenue to the state.

[d] In this case the state makes the loan and corresponds to scheme 3. Scheme 3 represents the case where a state chartered Eximbank makes the loan.

[e] Combined effect on the federal and state treasuries as a result of the gain in sales resulting from the loan and a reversal of the flows back into the treasuries. It does not take into consideration whether it is a benefit to the state or federal government. This is a proxy on the total effect on the U.S. economy assuming there was no interstate purchases resulting from the contract.

* Calculated at 2.5 multiplier and 50 percent additionality in exports of $15 million with a 75 percent loan.

NET OUTLAYS AND REVENUE FOR CALCULATING THE INTERNAL RATE OF RETURN (IRR) IN THOUSANDS OF DOLLARS

(9) Federal		(10) State		(11) Both	
Net Outlay	Principal + Interest	Net Outlay	Principal + Interest	Net Outlay	Principal + Interest
7,761		10,869		7,380	
	900		900		900
	2775		2775		2775
	2625		2625		2625
	2475		2475		2475
	2325		2325		2325
	2175		2175		2175
	2025		2025		2025
Internal Rate of Return %	19		9		21

This analysis was carried out for export credit financing interest rates of 6, 8 and 10 percent, for three multipliers (2, 2.5 and 3), and three additionality (40, 50 and 60 percent) assumptions. The results are summarized below in French Oil Mill Table 3. As can be seen, the IRR to the federal treasury ranges from 12 to 29 percent. Thus, given the federal borrowing rate, a direct export financing scheme offering 6 percent export funds by the federal government would still be justifiable to the U.S. treasury. The return to the state treasury is 1 to 3 percentage points higher than the internal rate at which it offers the funds.

FRENCH OIL MILL

Table 3

INTERNAL RATE OF RETURN TO THE FEDERAL AND STATE TREASURIES FOR A 75 PERCENT EXPORT FINANCING LOAN AT 6, 8 AND 10 PERCENT INTEREST FOR VARIOUS MULTIPLIER AND ADDITIONALITY ASSUMPTIONS

	6 percent Lending Rate				8 percent Lending Rate				10 percent Lending Rate		
					Federal Treasury						
M	A* 40	50	60	M	A* 40	50	60	M	A* 40	50	60
2	12	14	16	2	14	16	18	2	16	18	20
2.5	14	16	20	2.5	16	19	22	2.5	18	21	24
3	16	20	25	3	18	22	27	3	20	24	29
					State Treasury						
	40	50	60		40	50	60		40	50	60
2	6	6	7	2	8	8	9	2	10	10	11
2.5	6	7	8	2.5	8	9	10	2.5	10	11	12
3	7	8	8	3	9	10	10	3	11	12	13
					Federal and State Combined						
	40	50	60		40	50	60		40	50	60
2	13	15	18	2	15	17	20	2	17	19	27
2.5	15	19	22	2.5	17	21	24	2.5	19	23	26
3	18	22	29	3	20	24	31	3	22	26	33

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*'A' represents additionality in percent; 'M' represents multiplier effect.

The revenue streams were then analyzed with a view to calculating the extent of interest rate equalization by the federal and state treasuries that the revenue streams justified. In the case of French Oil Mill Company, within all the multiplier and additionality assumptions, interest equilization subisidies would be economically justifiable. The annual interest equilization subsidies justified by the federal treasury (depending on our assumptions) ranged from 6 percent to 14 percentage points. The state treasury, however, was justified in interest equilization subsidies of 1.5 to 3.5 percentage points.

In the case of the French Oil Mill Company the alternatives are summarized as follows.

- Scheme 1	Direct export loans by the federal government would yield an annual return to the treasury of 12 to 29 percent.
- Scheme 2	Direct interest rate equalization payments by a federal organization was justified by an annual amount of 6 to 14 percent of the loan value.
- Scheme 3	Direct export loan by state agencies would yield an annual return of less than 3 percent above the loan interest rate.
- Scheme 4	State buy down and interest rate equalizations were only justifiable by an annual amount of 1.5 to 3.5 percent of the loan value.
- Scheme 5	Federal tax breaks on interest equalization schemes were justified by an annual amount of 6 to 14 percent of the loan value.

- Export loan Guarantees by the federal government were justifiable if defaults did not exceed 20 to 45 percent of the loan value.

- Export loan Guarantees by the state government were justifiable if defaults did not exceed 3 to 5 percent of the loan value.

JOSEPH F. LAMB CO.

INTRODUCTION

Drs. Frederick Amling and Fariborz Ghadar visited Carlton R. Lindell, President, Lamb Technicon; Paul Stoffa, Group, Vice President, Planning and International Marketing; John D. Borseth, Vice President Sales and Marketing; and Robert C. Dennis, Treasurer.

STATE OF THE COMPANY

The Lamb Technicon Corporation is a medium sized firm that manufactures specialized machine tool and transfer equipment for sales both domestically and abroad. Lamb has one facility in the outskirts of Detroit, two in Windsor, Ontario and a sales office in the United Kingdom. Lamb has just closed a small plant and consolidated it with another due to a reduction in work orders. Total annual sales run about $300 million.

THE INDUSTRY

Domestically, there are six to ten companies that produce specialized machine tools and transfer equipment, with about $1 billion in total sales. Lamb is considered to be one of the major U.S. manfacturers. Internationally, Lamb competes with other U.S. firms' subsidiaries, and firms in Germany, Japan, France and Italy. Lamb holds approximately 10 percent of the worldwide market for the specialized machine tools and transfer equipment.

NEED TO FINANCE EXPORTS

Providing competitive financing of projects for export for the past two years has become an integral part of contract bids. Unfortunately, Lamb has been unable to obtain competitive rates from its local banks that offer 18 percent loans (in 1981) or from the Eximbank. Instead, it is routing many of its projects through its Canadian operations in order to obtain financing that its customers can accept. For example, last year it was quoted the following terms:

Canada	85 percent of contract financed at 11 1/2 percent, fixed, US dollars, if manufactured in Canada
U.S. Commercial Banks	interest rates of between 18 and 20 percent
United Kingdom	85 percent of contract financed at 7 1/2 to 8 percent with an up-front fee of 4 percent, if manufactured in the U.K.

In other words, in order to get the contract, the firm must be able to offer competitive financing or be prepared to build the equipment outside of the United States in a country where it can obtain competitive financing. Lamb has found that even in cases of domestic contracts, it has been unable to obtain competitive local (U.S.) financing for its U.S. customers and has shifted the production of the equipment to its Canadian facilities thus being able to use Canada's export credit. The drawback of this is that Canada requires that 75 percent of the total content be produced in Canada.

IMPACT ON THE FIRM

Lamb, like many other U.S. firms, is finding that it is necessary, in order to remain a viable business entity, to manufacture its products outside of the United States where it is able to receive subsidized loans for financing. Whereas in the past it used its Canadian facilities for excess work orders from the United States, it now finds it necessary, due to the competitive rates, to shift more and more of its orders to its Canadian factories. There is a limit to Canadian capacity, however, and the firm is reluctant to expand in Canada. Meanwhile, the U.S. plant languishes in a reduction in plant use and a sharp increase in unemployment.

As more of its business is conducted outside of the United States, the impact on the U.S. economy increases. For example, last year Lamb lost a $20 million contract to another U.S. firm's subsidiary in the U.K. Lamb had offered 11 to 12 percent financing in dollars out of Canada, and its competitor offered 7 1/2 percent in dollars out of the UK where it had a factory. No U.S. bank or governmental agency played a role in this contract bid. The impact to the treasury, the state of Michigan and the U.S. economy due to the reduction in taxes and increased unemployment compensation is computed in Table 1. The way these estimates were derived is found in the footnotes to the table.

Table 1

LAMB

TAX REVENUES LOST AND UNEMPLOYMENT COMPENSATION PAID DUE TO LOSS OF EXPORTS

	Federal	State	Total
Federal income Taxes lost	$1,306,073[1]		$1,306,073
State income taxes lost		$367,908[2]	367,908
FICA lost	1,071,732[3]		1,071,732
Unemployment Compensation	599,850[4]		599,850
Sales tax lost	[6]	69,583[5]	69,583
Corporate income taxes lost		117,500[7]	117,500
TOTAL	$2,977,655	$554,991	$3,532,646

Notes:

1) According to Lamb, approximately 40 percent of its sales price is allocatable to labor and the average annual wages received by employees, including fringe benefits, is $30,000. Using this as a base, federal income taxes were based on the 1981 Tax Tables for married persons filing jointly claiming two dependents and not itemizing deductions. federal income tax computed in this manner was $4,899. X 266.6 man years on a $20 million contract.

2) The state of Michigan has a flat individual tax rate of 4.6 percent. ($30,000 X 2.66.6 X 4.6 percent = $367,908)

3) FICA (social security taxes) was computed at 13.4 percent of gross wages with 6.7 percent contributed by the employer and 6.7 percent by the employee. The ceiling on this tax is $32,400 of income. The computation is 40 percent times $20 million times 13.4 percent or $1,071,732.

4) Maximum unemployment benefits were computed as being 30 percent of wages for a period of six months or a total of $2,250 per laid off employee per year. (266.6 times $2,250 = $599,850). It is assumed that the unemployment benefit indirect impact is on the federal treasury. Unemployment payments are made by the firm and subtracted from the companies revenue, thus reducing federal taxes. These payments go to the federal and state unemployed benefit accounts and disbursed by the state. However, the impact of such payments is an increase unemployment reduction by the firm, 50 percent of which comes from the federal treasury.

5) The sales tax figures were computed according to the 1981 Optional Sales Tax Tables as compiled by the Internal Revenue Service and were based on total income of $30,000 with 3-4 family members or $261 per worker. ($261 X 266.6 = $69,598)

6) Corporate income tax was based on 8 1/2 percent profit on sales and taxed at 46 percent by the federal government and was computed to be, in this example, $506,000. However since a subsidiary or another U.S. firm won this contract, which implies that the federal treasury did collect corporate taxes on this profit, this $506,000 will not be included here.

7) The state of Michigan has a single business tax which is an added value tax. It is computed by adding cash compensation, accrued benefits, depreciation and interest expenses to federal taxable income, subtracting royalties and interest income and a statutory exclusion of $40,000, and multiplying the result by .0235 percent. For purposes of this study, this figure was computed as $117,500.

Lamb Company Table 2 identifies the stream of earnings generated for the federal and state treasuries from export credit financing on 75 percent of the value of a $20 million sales contract. The analysis is done for an 8 percent loan and assumes an additionality of 50 percent due to the export financing and a multiplier of 2.5. As can be seen, the internal rate of return (IRR) on such direct export credits by the federal government would be 16 percent to the U.S. treasury. If this financing were undertaken by the state treasury, the IRR would have been only marginally higher than the interest rate of 9 percent. The combined IRR to the federal and state treasuries would have been 18 percent. For an explanation of the methodology used to derive these figures please see pages 13-16 in the Columbia Machinery Case.

LAMB

Table 2

THE INTERNAL RATE OF RETURN OF STREAMS OF EARNINGS AND OUTLAYS RESULTING FROM DIRECT LOANS BY FEDERAL AND STATE TREASURIES

(IN THOUSANDS OF DOLLARS)

Column (1) Yr	(2) Loan	(3) Loan Repayment	(4) Interest at 8 percent	(5) Total	(6) Savings and Revenues to federal treasury	(7) Savings and Revenues to state treasury	(8) Savings and Revenues to federal and state combined
0	15,000				3721[a]	692[c]	4415[e]
1			1,200	1200	1200	1200	1200
2			1,200	1200	1200	1200	1200
3		3000	1,200	4200	4200[b]	4200[d]	4200
4		3000	960	3960	3960	3960	3960
5		3000	720	3720	3720	3720	3720
6		3000	480	3480	3480	3480	3480
7		3000	240	3240	3240	3240	3240

[a] The saving to the federal treasury was obtained from Table 1 and was calculated as $2,977,655 X a multiplier of 2.5 and an additionality ratio of .5 obtaining a figure of $3,721,000.

[b] This represents an annual repayment of the loan with $3,000,000 to principal and the remainder for interest. This would apply to Scheme 1 where a loan would be made by an agency of the federal government for 75 percent of the contract. This is assumed to be a competive rate.

[c] This assumes a gain of revenue to the state as a result of the loan and is calculated as $692,000 X a multiplier of 2.5 and an additionality rate of .5. This was obtained from the data in Table 1 and is considered to be revenue to the state.

[d] In this case the state makes the loan and corresponds to scheme 3. Scheme 3 represents the case where a state chartered Eximbank makes the loan.

[e] Combined effect on the federal and state treasuries as a result of the gain in sales resulting from the loan and a reversal of the flows back into the treasuries. It does not take into consideration whether it is a benefit to the state or federal government. This is a proxy on the total effect on the U.S. economy assuming there was no interstate purchases resulting from the contract.

LAMB

Table 2 (Cont'd)

NET OUTLAYS AND REVENUE FOR CALCULATING THE INTERNAL RATE OF RETURN (IRR) IN THOUSANDS OF DOLLARS

(9) Federal		(10) State		(11) Both	
Net Outlay	Principal + Interest	Net Outlay	Principal + Interest	Net Outlay	Principal + Interest
11,278		14,306		10,585	
	1200		1200		1200
	1200		1200		1200
	4200		4200		4200
	3960		3960		3960
	3720		3720		3720
	3480		3480		3480
	3240		3240		3240
Internal Rate of Return	16		9		18

This analysis was carried out for export credit financing interest rates of 6, 8 and 10 percent, for three multipliers (2, 2.5 and 3), and three additionality (40, 50 and 60 percent) assumptions. The results are summarized below in Lamb Table 3. As can be seen, the IRR to the federal treasury ranges from 11 to 24 percent. Thus, given the federal borrowing rate, a direct export financing scheme offering 6 percent export funds by the federal government would still be justifiable to the U.S. treasury. The return to the state treasury is 1 to 2 percentage points higher than the interest rate at which it offers the funds.

Table 3

LAMB

INTERNAL RATE OF RETURN TO THE FEDERAL AND STATE TREASURIES FOR A 75 PERCENT EXPORT FINANCING LOAN AT 6, 8 AND 10 PERCENT INTEREST FOR VARIOUS MULTIPLIER AND ADDITIONALITY ASSUMPTIONS.

	6 percent Lending rate				8 percent Lending Rate				10 percent Lending Rate		
					Federal Treasury						
M	A*40	50	60	M	A*40	50	60	M	A*40	50	60
2	11	12	13	2	13	14	15	2	15	16	18
2.5	12	14	16	2.5	14	16	18	2.5	16	19	21
3	13	16	18	3	15	18	21	3	18	21	24
					State Treasury						
	40	50	60		40	50	60		40	50	60
2	6	6	7	2	9	9	10	2	10	10	11
2.5	6	6	7	2.5	9	9	10	2.5	10	10	11
3	7	7	8	3	10	10	11	3	11	11	12
					Federal and State Combined						
	40	50	60		40	50	60		40	50	60
2	11	14	16	2	13	16	18	2	15	17	20
2.5	14	16	18	2.5	16	18	21	2.5	18	21	22
3	16	18	21	3	18	21	24	3	20	23	27

The revenue streams were then analyzed with a view to calculating the extent of interest rate equalization by the federal and state treasuries that the revenue streams justified. In the case of Lamb Company, within all four of our multiplier and additionality assumptions, interest equalization subsidies would be economically justifiable. The annual interest equalization subsidies based on our assumptions and justified by the federal treasury ranged from 4 to 10 percentage points. The state treasury however was justified in interest equilization subsidies of only 1 to 3 percentage points.

In the case of the Lamb Company the alternatives are summarized as follows.

- Scheme 1 Direct export loans by the federal government would yield an annual return to the treasury of 11 to 24 percent.

- Scheme 2 Direct interest rate equalization payment by a federal organization was justified by an annual amount of 4 to 10 percent of the loan value.

* 'A' represents additionality in percent; 'M' represents multiplier effect.

- Scheme 3 Direct Export loans by the state government would yield an annual return only upto 2 percent above the interest rate charged on the loan.

- Scheme 4 State buy down and interest rate equalizations were only justifiable by an annual amount of 1 to 3 percent of the loan value.

- Scheme 5 Federal tax breaks on interest equalization schemes were justified by an annual amount of 4 to 10 percent of the loan value.

- Export loan guarantees by the federal government were justifiable if defaults did not exceed 20 to 40 percent of the loan value.

- Export loan guarantees by the state government were justifiable if defaults did not exceed 4 to 6 percent of the loan value.

PETROTECH

INTRODUCTION

Drs. Frederick Amling and Fariborz Ghadar visited the Petrotech company in Belle Chasse, La in early November, 1982 where they interviewed Doug Moore P.E., President of Petrotech.

STATE OF THE COMPANY

Petrotech, international in scope, is a small firm that designs, engineers and manufactures specialized compressors as well as pneumatic and electronic control systems to measure, filter and control the flow and storage of natural gas, manufactured gas and oil in pipelines. These products are designed for use in the U.S. and abroad. The sophisticated and quality products developed and produced by this company represent the state of the arts in the industry with Petrotech being the low-cost producer in international competition at least for the pipeline job in Eygpt which represents approximately $15,000,000 of sales representing 300 man years of work. The simplicity, durability and economy of the systems designed by Petrotech with its unique combination of management and skilled artisans is impressive. Presently Petrotech has a work force of 70 people.

THE PROJECT AND THE COMPETITOR

Petrotech is in the process of bidding for a pipeline job in Eygpt. It's partners are Motorala and Cestronics. The value of the $15,000,000 to Petrotech is $12,000,000 with $2,000,000 going to Motorala and the remaining $1,000,000 going to Cestronics. The competing firms are British, French and Italian. The next closest bid is Snam Prognetta of Italy.

THE COMPETITIVE PROBLEM

From an engineering and technical stand point Petrotech is the winning company. The systems design is superior and commercially the company was and is the low bidder.

But even though this is true, it appears that Petrotech is not to be awarded the project because it cannot obtain competitive financing. At this point an Italian (Snam Prognetta) firm appears to be the front runner in the competition because the Italian government will provide 6 1/2 percent loan financing for the project. The Italian firm did not have the lowest bid - in fact it was $2,000,000 higher than the Petrotech bid. While it is rumored that the Italian company will get the bid it is also believed that it will be required to reduce the price of this project and increase another projects price that was previously awarded by $2,000,000 to make up the difference. (This is the stuff with which international competition is made.)

Petrotech spent over $100,000 to enter the competitive arena. If it had competitive financing it would have earned a 2 percent profit on the contract - which is very low - but it would provide 300 man years of employment for Americans.

THE PROBLEM

The problem it faces is finding out how to operate within the Embassy, Eximbank, Government nucleus. The President of the company thinks he has not had the cooperation of the U.S. Embassy in Cairo and has only recently obtained the attention of the staff of the Eximbank, AID and the Department of Commerce. The president of the company is highly intelligent and competitive but feels the U.S. government should back him in his export efforts. He cannot fight the international competitive battle against 6 1/2 percent Italian financing without U.S. support.

IMPACT OF THE FIRM

The loss of this $15,000,000 contract on the U.S. treasury, and the state of Louisiana is computed in Table 1. The way these estimates were derived is found in the footnotes to the table. Petrotech Table 2 identifies the stream of earnings generated for the federal and state treasuries from export credit financing on 75 percent of the value of the $15 million sales contract. The analysis is done for an 8 percent loan and assumes an additionality of 50 percent due to export financing and a multiplier of 2.5. As can be seen, the internal rate of return (IRR) on such direct export credits by the federal government would be 20 percent to the U.S. treasury. If this financing were undertaken by the state treasury, the IRR would have been only marginally higher than the interest rate charge of 9 percent. This is due to the fact that a significant position of the project is procured.

For an explanation of the methodology used to derive these figures please see pages 13-16 in the Columbia Machine Case.

PETROTECH

Table 1

TAX REVENUE LOST AND UNEMPLOYEMNT COMPENSATION PAID DUE TO LOSS OF EXPORTS

	Federal	State	Total
Federal income taxes lost	$1,469,700[1]		$1,469,700
State income taxes lost		$252,000[2]	252,000
FICA lost	1,206,000[3]		1,206,000
Unemployment Compensation	675,000[4]		675,000
Sales tax lost		29,600[5]	29,600
Corporate income taxes lost	450,000[6]	32,500[7]	32,500
TOTAL	$3,800,700	$314,100	$4,114,800

Notes:

1) According to Petrotech, approximately 60 percent of the sales price is allocatable to labor and the average annual wages received by employees, including fringe benefits, is $30,000. Using this as a base, federal income taxes were based on the 1981 Tax Tables for married persons filing jointly claiming two dependents and not itemizing deductions. Federal income tax computed in this manner was $4,899 X 300 man years on a $15,000,000 contract.
2) The state of Louisiana has a state tax rate of 2 percent on the first $10,000 and up to 4 percent up to $40,000. Thereafter the state tax was computed to be $840 per family times 300 man years, or $252,000.
3) FICA (social security taxes) was computed at 13.4 percent of gross wages; 6.7 percent contributed by the employer and 6.7 percent by the employee. The ceiling on this tax is $32,400 of income. The computation is 300 X $30,000 X 13.4 percent or $1,206,000.
4) Maximum unemployment benefits were computed as being 30 percent of wages for a period of six months or a total of $2,250 per laid off employee per year. ($2,250 times 300 or $675,000). It is assumed that the unemployment benefit indirect impact is on the federal treasury. Unemployment payments are made by the firm and subtracted from the companies revenue, thus reducing federal taxes. These payments go to the federal and state unemployed benefit accounts and disbursed by the state. However, the impact of such payments is an increase unemployment reduction by the firm, 50 percent of which comes from the federal treasury.
5) The sales tax figures were computed according to the 1981 Optional Sales Tax Tables as compiled by the Internal Revenue Service and were based on total income of $30,000 with 3-4 family members or $197 per worker. (300 X $197 or $29,600)
6) Corporate income tax was based on 3 percent profit on sales and taxed at 46 percent by the federal government and was computed to be, in this example, $450,000.
7) The state of Louisiana has a corporate tax rate of 4 percent on the first $25,000 profit, 5 percent on the next $25,000 profit, 6 percent on the next $50,000 profit, 7 percent on the next $100,000 profit and 8 percent on any profit in excess of $200,000. Therefore the state corporate tax was computed on $450,000 and amounted to $32,500.

PETROTECH

Table 2

THE INTERNAL RATE OF STREAMS OF EARNINGS AND OUTLAYS RESULTING FROM DIRECT LOANS BY FEDERAL AND STATE TREASURIES (IN THOUSANDS OF DOLLARS)

Column (1) Yr	(2) Loan	(3) Loan Repayment	(4) Interest at 8 percent	(5) Total	(6) Savings & Revenues to federal treasury	(7) Savings & Revenues to state treasury	(8) Savings & Revenues to state & federal combined
0	11,250				4750[a]	392[c]	5142[e]
1			900	900	900	900	900
2		1875	900	2775	2725[b]	2725[d]	2725
3		1875	750	2625	2625	2625	2625
4		1875	600	2475	2475	2475	2475
5		1875	450	2325	2325	2325	2325
6		1875	300	2175	2175	2175	2175
7		1875	150	2025	2025	2025	2025

NET OUTLAYS AND REVENUE FOR CALCULATING THE INTERNAL RATE OF RETURN (IRR) IN THOUSANDS OF DOLLARS

(9) Federal		(10) State		(11) Both	
Net Outlay	Principal + Interest	Net Outlay	Principal + Interest	Net Outlay	Principal + Interest
7,761		10,869		7,380	
	900		900		900
	2775		2775		2775
	2625		2625		2625
	2475		2475		2475
	2325		2325		2325
	2175		2175		2175
	2025		2025		2025
Internal Rate of Return %	19		9		21

[a] The saving to the federal treasury was obtained from Table 1 and was calculated as $3,800,700 X a multiplier of 2.5 and an additionality ratio of .5 obtaining a figure of $4,750,000.

[b] This represents an annual repayment of the loan with $1,875,000 to principal and the remainder for interest. This would apply to Scheme 1 where a loan would be made by an agency of the federal government for 75 percent of the contract. This is assumed to be a competive rate.

[c] This assumes a gain of revenue to the state as a result of the loan and is calculated as $392,000 X a multiplier of 2.5 and an additionality rate of .5. This was obtained from the data in Table 1 and is considered to be revenue to the state.

[d] In this case the state makes the loan and corresponds to scheme 3. Scheme 3 represents the case where a state chartered Eximbank makes the loan.

[e] Combined effect on the federal and state treasuries as a result of the gain in sales resulting from the loan and a reversal of the flows back into the treasuries. It does not take into consideration whether it is a benefit to the state or federal government. This is a proxy on the total effect on the U.S. economy assuming there was no interstate purchases resulting from the contract.

Outside of Louisiana, Texas, and Oklahoma, the state treasury would not beneift from employment and production. The combined IRR to the federal and Louisiana state treasury would have been 22 percent.

This analysis was carried out for export credit financing interest rates of 6, 8 and 10 percent, for three multipliers (2, 2.5 and 3), and three additionality (40, 50 and 60) percent assumptions. The results are summarized in Petrotech Table 3. As can be seen, the IRR to the federal treasury ranges from 13 to 29 percent. Thus, given the federal borrowing rate, a direct export financing scheme offering 6 percent export funds by the federal government would still be justifiable to the U.S. treasury. The return to the state treasury is 1 to 2 percentage points higher than the interest rate at which it offers

PETROTECH

Table 3

INTERNAL RATE OF RETURN TO THE FEDERAL AND STATE TREASURIES

6 percent Lending Rate				8 percent Lending Rate				10 percent Lending Rate			
				Federal Treasury							
M	A* 40	50	60	M	A* 40	50	60	M	A* 40	50	60
2	13	15	17	2	15	17	19	2	17	19	21
2.5	15	17	21	2.5	17	20	23	2.5	19	22	25
3	17	21	26	3	19	23	28	3	21	25	29
				State Treasury							
	40	50	60		40	50	60		40	50	60
2	6	6	6	2	8	8	9	2	10	10	11
2.5	6	7	8	2.5	8	9	10	2.5	10	11	12
3	7	8	8	3	9	10	10	3	11	12	13
				Federal and State Combined							
	40	50	60		40	50	60		40	50	60
2	14	16	19	2	16	18	21	2	18	20	23
2.5	16	20	23	2.5	18	22	25	2.5	20	24	27
3	19	23	30	3	21	25	32	3	23	27	34

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* 'A' represents additionality in percent; 'M' represents multiplier effect.

The revenue streams were then analyzed with a view to calculating the extent of interest rate equalization by the federal and state treasuries that the revenue streams justified. In the case of Petrotech, within all of our multiplier and additionality assumptions, interest equalization subsidies would be economically justifiable. The annual interest equalization subsidies (based on our assumptions) justified by the federal treasury ranged from 7 percent to 15 percentage points. The state treasury, however, was justified in interest rate equalization of 1 to 2 percentage points.

In the Case of Petrotech the alternatives are summarized as follows.

- Scheme 1 Direct export loans by the federal government would yield an annual return to the treasury of 13 to 29 percent.

- Scheme 2 Direct interest rate equalization payments by a federal organization was justified by an annual amount of 7 to 15 percent of the loan value.

- Scheme 3 Direct export loans by the state government would yield an annual return at best 3 percent above the interest rate charged on the loan.

- Scheme 4 State buy down and interest rate equalizations were only justifiable by an annual amount of 1 to 2 percent of the loan value.

- Scheme 5 Federal tax breaks on interest equalization schemes were justified by an annual amount of 7 to 15 percent of the loan value.

- Export loan guarantees by the federal government were justifiable if defaults did not exceed 25 to 15 percent of the loan value.

- Export loan guarantees by the state government were justifiable if defaults did not exceed 2.5 to 5.5 percent of the loan value.

SOFEC

INTRODUCTION

Dr. Frederick Amling and Dr. Fariborz Ghadar visited Houston, Texas where they spoke to William Kielly, President; Robert Gruy, Senior Vice President; and Sylvan Schwartz, Jr., Vice President--Finance, all of SOFEC, Inc.

STATE OF THE COMPANY

SOFEC, Inc. (Specialized Offshore Facilities and Engineered Components) is a private firm, wholly owned by Texas International, which began operations in 1972 and currently employs twenty-two people. The company designs, engineers and constructs a full range of marine terminals on a turnkey basis. It is one of the primary suppliers of Single Point Mooring (SPM) terminals for liquid product import or export and for offshore floating crude oil production, storage and processing. The SPM technology has been expanded to include specialty buoys for use in ship berthing and maneuvering in difficult or congested areas, offshore supply vessel mooring and conventional multiple buoy terminals. SOFEC is a licensee of the Single Anchor Leg Mooring (SALM) system through Exxon Research and Engineering.

SOFEC is predominatly an international company. Though it is located in the United States, only one U.S. port has purchased a SALM from SOFEC. All other systems have been produced for export. It has established worldwide recognition for its high quality design and construction since its founding.

THE INDUSTRY

SOFEC's main international competitors are from Monoco, Switzerland, the Netherlands, France and Canada. Currently, SOFEC has approximately ten percent of the $100 million worldwide industry sales, and has twenty-two employees.

NEED TO FINANCE EXPORTS

As with most companies dealing in capital goods, an integral part of the sales contract is the financing package. When the competitors are domestic entities, the packages offered usually have similar, if not identical, terms and rates, and the buying decision is based on product quality and price. However, if the U.S. firm exports its product and is faced with foreign competition, the financial package offered must also compete with those of rival foreign producers.

If the foreign producer is able to offer better terms to the buyer due to government sponsored supports and subsidies, it is often able to undercut the U.S. firm's financing package. This means of course that the U.S. firm loses the sale of the equipment because the buying decision was based on the financial package rather than the price or quality of the product.

SPM's were used almost exclusively for the transportation of large quantities of oil, deepwater or port to port from 1972 until about 1979. These facilities were owned and operated primarily by the major oil companies. As such, it was the oil companies that funded the projects and SOFEC did not have to offer a financial package to its customers.

In the last four years however, the technology has been enormously expanded and the SPMs and SALMs are not being used only as filling stations. Instead, they are being used to anchor vessels directly at oil fields, which alleviates the need for pipelines and permits offshore fields to go into production two to three years earlier. With this shift in function, the customer base has also shifted away from the major oil companies. Furthermore, with the rapidly increasing role of national oil entities and smaller companies, the multinational oil companies' (MNOC) role has eroded and SOFEC's clients now include national oil companies (NOC) of smaller countries, independent oil companies and major oil companies working under contract for the NOC. As few of these entities have the financial or capital backing that the major oil companies have, they require extensive financing.

In fact, as of July 1982, SOFEC had 19 bids outstanding. Of these, only five did not require financing as a major condition for winning the contract. The company considered six or seven as potentially obtainable; of these, four will require major financing.

IMPACT ON THE FIRM

The lack of export financing has had an impact on the firm. As an example, SOFEC was asked by the Government of Brazil to bid on a $2 million contract for Petrobras. It came in first out of five in three different technical evaluation rounds; first out of five in three commercial/price evaluation rounds; and last in the financing evaluation round. And even though SOFEC was first in quality and price, it lost the contract due to the non-competitive financing package it put forth. At the time of the contract bid, the Eximbank had its lower lending limit at $5 million. This meant that SOFEC had to go through a commercial bank and it was able to offer funds at LIBOR + 2 3/4 as opposed to its French competitor, which, with government backing, offered 8 1/4 percent fixed for ten years with a two year grace period. On one contract, within the past month, the Eximbank provided a loan at 11 percent for one SOFEC project. This allowed the firm to be in competition for the contract.

If SOFEC had won the $2 million Petrobras contract, it would have increased demand in the United States for 60 fulltime machinists and welders with an average annual salary estimated to be $22,500. The impact of this loss for the state and federal governments is seen in Table 1. The way these estimates were derived is found in the footnotes to the table.

For an explanation of the methodology used to derive these figures please see pages 13-16 in the Columbia Machine Case.

Table 1

SOFEC

TAX REVENUES LOST AND UNEMPLOYMENT COMPENSATION PAID DUE TO LOSS OF EXPORTS

	Federal	State	Total
Federal income taxes lost	$151,105[1]		$151,105
State income taxes lost		$0[2]	0
FICA lost	160,700[3]		160,700
Unemployment Compensation	89,944[4]		89,944
Sales Tax lost		9,647[5]	9,647
Corporate income taxes lost	165,600[6]	[7]	165,600
TOTAL	$567,349	$9,647	$576,996

Notes:

1) According to SOFEC, approximately 60 percent of its sales price is allocable to labor and the average annual wages received by employees, including fringe benefits, is $22,500. Using this as a base, federal income taxes were based on the 1981 Tax Tables for married persons filing jointly claiming two dependents and not itemizing deductions. federal income tax computed in this manner was $2,835. X 53.3 man years on a $2 million contract.
2) The state of Texas has no individual state income tax.
3) FICA (social security taxes) was computed at 13.4 percent of gross wages with 6.7 percent contributed by the employer and 6.7 percent by the employee. The ceiling on 25 is tax is $32,400 of income.
4) Maximum unemployment benefits were computed as being 30 percent of wages for a period of six months or a total of $1,688 per laid off employee per year. It is assumed that the unemployment benefit indirect impact is on the federal treasury. Unemployment payments are made by the firm and subtracted from the companies revenue, thus reducing federal taxes. These payments go to the federal and state unemployed benefit accounts and disbursed by the state. However, the impact of such payments is an increase unemployment reduction by the firm, 50 percent of which comes from the federal treasury.
5) The sales tax figures were computed according to the 1981 Optional Sales Tax Tables as compiled by the Internal Revenue Service and were based on total income of $22,500 with 3-4 family members or $181 per worker.
6) Corporate income tax was based on 18 percent profit on sales and taxed at 46 percent by the federal government.
7) The state of Texas has no state tax on corporations.

SOFEC Table 2 identifies the stream of earnings generated for the federal and state treasuries from export credit financing on 75 percent of the value of a $2 million sales contract. The analysis is done for an 8 percent loan and assumes an additionality of 50 percent due to the export financing and a multiplier of 2.5. As can be seen, the internal rate of return (IRR) on such direct export credits by the federal government would be 27 percent to the U.S. treasury. If this financing were undertaken by the state treasury, the IRR would have been only marginally higher than the interest rate of 8 percent. The combined IRR to the federal and state treasuries would have been 27 percent. For an explanation of the methodology used to derive these figures please see pages 14-18 in the Columbia Machinery Case.

THE INTERNAL RATE OF RETURN OF STREAMS OF EARNINGS AND OUTLAYS RESULTING FROM DIRECT LOANS BY FEDERAL AND STATE TREASURIES

(IN THOUSANDS OF DOLLARS)

Table 2

SOFEC

Column Year	(1)	(2) Loan	(3) Loan Repayment	(4) Interest at 8 percent	(5) Total	(6) Savings and Revenues to federal treasury	(7) Savings and Revenues to state treasury	(8) Savings and Revenues to federal and state combined
0		1,500				709[a]	12[c]	721[e]
1				120	120	120	120	120
2				120	120	120	120	120
3			300	120	420	420[b]	420[d]	420
4			300	96	396	396	396	396
5			300	72	372	372	372	372
6			300	48	348	348	348	348
7			300	24	324	324	324	324

---

[a] The saving to the federal treasury was obtained from Table 1 and was calculated as $567,349 X a multiplier of 2.5 and an additionality ratio of .5 obtaining a figure of $739,000.

[b] This represents an annual repayment of the loan with $300,000 to principal and the remainder for interest. This would apply to Scheme 1 where a loan would be made by an agency of the federal government for 75 percent of the contract. This is assumed to be a competive rate.

[c] This assumes a gain of revenue to the state as a result of the loan and is calculated as $12,000 X a multiplier of 2.5 and an additionality rate of .5. This was obtained from the data in Table 1 and is considered to be revenue to the state.

[d] In this case the state makes the loan and corresponds to scheme 3. Scheme 3 represents the case where a state chartered Eximbank makes the loan.

[e] Combined effect on the federal and state treasuries as a result of the gain in sales resulting from the loan and a reversal of the flows back into the treasuries. It does not take into consideration whether it is a benefit to the state or federal government. This is a proxy on the total effect on the U.S. economy assuming there was no interstate purchases resulting from the contract.

NET OUTLAYS AND REVENUE FOR CALCULATING THE INTERNAL RATE OF RETURN (IRR) IN THOUSANDS OF DOLLARS

	(9) Federal		(10) State		(11) Both	
	Net Outlay	Principal + Interest	Net Outlay	Principal + Interest	Net Outlay	Principal + Interest
	791		1488		779	
		120		120		120
		120		120		120
		420		420		420
		396		396		396
		372		372		372
		348		348		348
		324		324		324
	Internal Rate of Return %	27		8		27

This analysis was carried out for export credit financing interest rates of 6, 8 and 10 percent, for three multipliers (2, 2.5 and 3), and three additionality (40, 50 and 60 percent) assumptions. The results are summarized below in SOFEC Table 3. As can be seen, the IRR to the federal treasury ranges from 16 to 46 percent. Thus, given the federal borrowing rate, a direct export financing scheme offering 6 percent export funds by the federal government would still be justifiable to the U.S. treasury. The return to the state treasury however is only marginally higher than the interest rate at which the funds would be offered. This is primarily due to the fact that the state of Texas has no individual or corporate state taxes.

SOFEC Table 3

INTERNAL RATE OF RETURN TO THE FEDERAL AND STATE TREASURIES FOR A 75 PERCENT EXPORT FINANCING LOAN AT 6, 8, AND 10% INTEREST FOR VARIOUS MULTIPLIER AND ADDITIONALITY ASSUMPTIONS

	6 percent Lending Rate				8 percent Lending Rate				10 percent Lending Rate		
					Federal Treasury						
M	A* 40	50	60	M	A* 40	50	60	M	A* 40	50	60
2	16	19	23	2	19	22	26	2	21	24	23
2.5	19	24	31	2.5	22	27	34	2.5	24	29	36
3	23	31	40	3	26	34	44	3	28	36	46
					State Treasury						
	40	50	60		40	50	60		40	50	60
2	6	6	6	2	8	8	8	2	10	10	10
2.5	6	6	6	2.5	8	8	8	2.5	10	10	10
3	6	6	7	3	8	8	9	3	10	10	11
					Federal and State Combined						
	40	50	60		40	50	60		40	50	60
2	16	19	23	2	19	22	26	2	21	24	28
2.5	19	24	31	2.5	22	27	34	2.5	24	29	36
3	23	31	40	3	26	34	44	3	28	36	46

* 'A' represents additionality in percent; 'M' represents multiplier effect.

The revenue streams were then analyzed with a view to calculating the extent of interest rate equalization by the federal and state treasuries that the revenue streams justified. In the case of SOFEC Company, the financing schemes where the federal government subsidized interest rates were justifiable within all the multiplier and additionality assumptions. In fact annual interest equalization subsidies of 12 to 30 percentage points were justifiable to the federal treasury. The state treasury however did not generate enough additional revenues to justify even a 1 percent interest equalization subsidy.

The above figures indicate the initial revenue that was lost due to SOFEC's inability to offer a competitive financing package in Brazil. It should be noted that the same inability to offer financing that was competitive with foreign financing packages also led SOFEC to lose a $12 million contract in Panama in 1981.

The company is currently bidding on a contract with ONGC in India for the Bombay High Complex, valued at $3.683 million for the U.S. component with $4.30 million total. As the Eximbank has reduced its lower lending limit to $2.5 million, SOFEC is able to and has addressed its need for export financing to them.

However, it is feared that the Eximbank would not, in the end, offer a financing package that would be effectively competitive with foreign government-subsidized financial packages. One problem is that the amount of the loan is for only 75 percent of the contract. It seriously considered having its bid for the contract come from its U.K. affiliate which would insure an ECDG rate of 10 percent*. In this case however Eximbank financing at 11 percent was offered SOFEC resulting in SOFEC continuing as a contestant in the competition.

SOFEC recognizes that if it is to continue to be a commercially viable entity, it must win contracts. To win contracts it must be able to compete financially. If, in order to continue its existence, SOFEC must move its base of operations outside of the United States to another jurisdiction where there is active governmental support for export financing, it will do so. It would much prefer to remain in the United States.

In the case of SOFEC the alternatives are summarized as follows.

- Scheme 1 Direct export loans by the federal government would yield an annual rate of return to the treasury of 16 to 46 percent.

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* Subsequently SOFEC rejected going with ECDG.

- Scheme 2 Direct interest rate equalization payments by a federal organization were justified by an annual amount of 12 to 30 percent of the laon value.

- Scheme 3 Direct export loans by the state government would yield an annual rate of return at best only 1 percent above the interest rate charged on the loan.

- Scheme 4 State buy down and interest rate equalizations were only justifable by an annual amount of less than 1 percent of the loan value.

- Scheme 5 Federal tax breaks on interest equalization schems were justified by an annual amount of 12 to 30 percent of the loan value.

- Export loan guarantees by the federal government were justifiable if defaults did not exceed 40 to 60 percent of the loan value.

- Export loan guarantees by the state government were justifiable if defaults did not exceed .5 to 1.5 percent of the loan value.

PART IV
SUMMARY OF FINDINGS
EXECUTIVE VIEWS, EXECUTIVE SOLUTIONS
CASE ANALYSIS

EXECUTIVE VIEWS

A summary of findings based upon the in-depth interviews with the executives of the six firms are:

1. All of the executives of the six companies indicated that lack of export financing was a very real problem for them and they thought that their financial future, the future of their companies and employees, were threatened by subsidized export financing offered to their foreign competition.

2. The executives thought that the financial incentives provided by the Eximbank were inadequate to meet the competition from their foreign competitors.

3. The executives thought that the Eximbank interest rates were not competitive with foreign rates, that is, foreign governmental financial incentives offer interest rates one to four percentage points below Eximbank rates. This point was documented with several specific examples.

4. The executives thought that the Eximbank did not understand their competitive problem, their need for financing, and was unresponsive to their needs in advance of negotiations. Without advance committments, firms cannot negotiate effectively for a contract.

5. The executives thought there were apparent gaps in communication between their companies and government agencies where either no solution was reached or a promise for a solution was made but then forgotten.

6. All of the executives were delighted and pleased that they and their firms were included in the study. They hoped that someone related to the federal government would value their opinions.

7. There was a general feeling that other countries, notably Japan, would develop market strategies in their industries that would eventually lead to their demise. (The products ranged from machine tools to panty hose.)

8. Present policies of foreign governments with the lure of attractive financing are encouraging companies to build factories abroad.

9. There was a general feeling that the United States was trying to play a fair game in international markets but that other trading partners were not playing fair or by the same rules.

10. There was a general feeling of an immediate need for a solution to the competition problem.

11. They stressed that they only wanted a chance to compete on an equal basis with foreign firms with competitive financing.

EXECUTIVE SOLUTIONS TO PROBLEM

The solutions recommended by the executives were uniformly straight forward.

(1) The Eximbank should provide competitive financing for small and medium-sized export firms. This means that the Eximbank would guarantee that it would meet the rates and terms of the foreign competition in advance. The key ingredients are:

(a) meet the competitive interest rate,

(b) meet the competitive terms of the loan, (duration, grace period, and portion financed)

(c) make the committment in advance.

(2) FCIA should make it easier to provide insurance for loans made to foreign companies against political risk, since guaranteed loans would help. This can be achieved by reducing the stringent requirements placed on the borrowers.

(3) The thinking of the executives was that the federal government should do the job through the Eximbank rather than have it done through a state Eximbank. The present organization, responsive to their needs, would be more effective in fighting the competition now.

(4) The notion was generally held that the firms could handle price and quality competition but not the governments of other countries. They therefore thought that having the U.S. government help them compete against other governments was appropriate. They also wanted an officer of the U.S. goverment assigned to them for help.

SUMMARY OF FINDING BASED UPON CASE ANALYSIS

The investigation showed that a major cause for the loss of contracts by these firms was the lack of competitive export credit financing. In all six cases another major cause of lost contracts was the overall world recession. However, clearly 66 percent of the six companies would have continued to fare well even in a worldwide recession if competitive export credit financing had been available. The remaining companies would not have improved their operations, but they would have produced more from their U.S. facilities. Even in these two cases, the existence of competitive export credit financing would have been cost effective to the United States. The benefits to the U.S. economy would have exceeded the cost of the financing incentives.

In general, the quality and price competitiveness of the products of the six companies included in the study were impressive. The companies seemed to be well managed, producing goods of superior quality, and the marketing skills of the companies were well developed. The lack of competitive export financing, however, has resulted in a major loss of sales, a substantial level of lay-offs and profit losses to the companies. The companies that were most export dependent have, in general, fared worse in this environment.

The individual case studies analyzed the loss of specific contracts and their impact on the state, the federal treasury, and U.S. economy in terms of jobs, tax revenues, and cost of supporting unemployed workers. The calculation was done for the firms that lost contracts as well as for the firms that would have supplied these companies with products. The secondary impact is calculated using the multiplier parameters from the literature survey. The results are summarized in Table I-1 below and indicate that the return to the U.S. economy for direct export credit financing offered to the six companies at three interest rates (6, 8, and 10 percent) would have yielded very attractive returns. The range of the return varies depending on assumptions on additionality of exports as well as the multiplier that the additional exports would have within the economy. However, even with conservative assumptions of 40 percent additionality and a 2.0 muliplier, the return to the federal and state treasuries of export credit financing is high enough (11 to 21 percent annually) to justify its offering to exporters. With 60 percent additionality and a 3.0 multiplier, the return of 21 to 46 percent annually is extraordinary.

This set of calculations undertaken for the U.S. Treasury revenue stream alone indicates that the returns are not much lower than those for the State and Federal Treasuries combined. The benefits from the Federal Treasury point of view derived from export credit financing are substantial and yield a return that ranges from 11 to 46 percent for the direct export loan schemes. Below is a simple average of the internal rate of return in the six cases we interviewed. As can be seen, even with a 40 percent additionality and a 2.0 multiplier the return on an export financing plan charging 8 percent would yield a return on the government funds of 15 percent.

Table I-1

AVERAGE INTERNAL RATE OF RETURN* ON FEDERAL TREASURY FUNDS FOR DIRECT EXPORT CREDIT LOANS**

	6 percent Lending Rate				8 percent Lending Rate				10 percent Lending Rate		
M \ A***	40	50	60	M \ A***	40	50	60	M \ A***	40	50	60
2	13	16	17	2	15	18	19	2	17	20	21
2.5	16	18	20	2.5	18	20	22	2.5	20	22	25
3	17	20	28	3	19	22	31	3	21	25	34

In the study we also looked at the return to the state treasury on export credit financing offered by the states. While the federal treasury would benefit substantially from such programs, the returns to the states' treasuries would not be as high as those to the U.S. federal treasury. That is because the federal treasury is the recipient of most income and corporate tax revenues. The incidence of tax rests on the U.S. treasury. It is also the federal government that pays for unemployment benefits, indirectly.

There was a substantial variation among the states. As expected, the return to the treasury of the states with very low or no state individual or corporate income taxes, and with limited sales taxes, such as the state of Texas, was low and only marginally higher than what they would have charged on the export credit financing. In contrast, states with higher individual and corporate income tax rates, such as Michigan, would have a higher rate of return ranging from 9 to 11 percent on an 8 percent export credit loan.

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*The internal rate of return is the average annual return to the agency for funds invested. In other words for every dollar invested the federal treasury would receive (in the case of 8 percent loans with 50 percent additionality and 2.5 multiplier) an annual 20 percent return in addition to the dollar invested.

**Loan of 75 percent of contract amount for interest rate of 6, 8 and 10 percent. Mulitplier of 2, 2.5 and 3.0 and additionality of 40, 50 and 60 percent. Calculated as simple average of our sample five case studies.

*** 'A' represents additionality in percent; 'M' represents multiplier effect.

It is clear that under any reasonable set of assumptions the return on export credit financing would be high enough to justify its offering. The return to the federal treasury for export financing plans would be much higher than if offered by the states. Yet many states with individual and/or corporate income taxes, could, in the absence of acceptable federal export financing, justify the offering of export financing to its exporters.

In summary, the U.S. treasury would receive an excellent return on its investment in low interest rate loans through the Eximbank. The bulk of the money would be returned in one year and would provide an 18 to 20 percent return on investment assuming an interest rate of 6 or 8 percent, a multiplier of 2.5, and an additionality of .5 percent. In an underemployed economy this would provide an excellent return.

With regard to interest buy downs on equalization schemes, given that the federal treasury would receive 25-55 cents on every dollar of loan in year 1, it could afford to buy down the annual interest on loans by an enormous 4 to 25 percent of the value of the loan. The state government on the other hand would only receive 2 to 4 cents on every dolar of loan in year 1 and could only afford to buy down the annual interest on loans by at best 3 percent of the value of the loan. These figures also indicate that with regard to loan guarantees, the federal government could offer loan guarantees if defaults are below 25-55 percent of the loans while the state government is only justified in giving loan guarantees if defaults are below 3 percent. Loan guarantees would effectively reduce the cost of export loans to small exporting companies by 4 percent annually.

ANNEX I

THE COST/BENEFIT ANALYSIS OF THE EXPORT FINANCE SUBSIDY AND LITERATURE STUDY

SUMMARY OF LITERATURE FINDINGS

Government support for export financing can take many forms, all of which amount to direct or indirect subsidies for exports. Official credit programs of the United States provide three basic types of financial support for exports. First, direct loans are made to finance exports either as buyers' credits or suppliers' credits, depending on the arrangement made between the U.S. exporter and the importer. The direct loan is provided at a fixed interest rate at a level below prevailing market interest rates.

The second type of program involves insurance, covering a major portion of the principal and at least some of the interest of an export loan made through commercial channels. In the United States the basic coverage is for political and/or commercial risk.

The third type involves guarantees for a major portion of the export financing provided by commercial banks.

These programs all have the effect of making credit available at terms more favorable than could be provided in their absence. The subsidy element is present in the difference between the cost and availability of credit in the presence and absence of official export credit programs.

There have been a number of studies to evaluate the economic benefits and costs of the export finance subsidy. Most of the study results were used as the basis for arguments either for or against specific subsidy programs.

The purpose of this literature survey is to provide an objective analysis of various studies in terms of their methodologies and conclusions regarding the costs and benefits of the export finance subsidy.

ECONOMIC BENEFITS AND FINDINGS

Many studies have attempted both to prove and to quantify direct as well as indirect economic benefits from the export finance subsidy. These benefits are alleged to arise from two principal factors: the multiplier effect and additionality. An export subsidy is seen to lead to net export gains which would spread throughout the entire economy. These "ripple" effects would be magnified through the income multiplier. The subsequent rise in GNP would lead to increased tax revenues which could more than offset the initial subsidy cost.

The multiplier effect is crucially related to the net export gains that the export finance subsidy is thought to provide. The extent of net export gains due to subsidy is known as additionality. Many studies have been made to measure the extent of additionality.

THE MULTIPLIER EFFECT

WHARTON STUDY: Wharton Econometric Forecasting Associates (WEFA) recently conducted a study commissioned by Westinghouse Electric Corporation*. The study used WEFA's basic econometric model of the United States to estimate the effects on government receipts and expenditures that would result from the export sale of subway cars and related equipment to the Buenos Aires Subway. The results show that export sales, supported by Eximbank financing, were translated into increases in domestic production, employment, income and government receipts. The study, using the econometric model, first estimated the net increase in the U.S. gross national product due to the export sales, then calculated incremental government tax revenues resulting from the GNP increase.

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*Wharton EFA, Inc., "Budd Company and Westinghouse Electric Corporation, Buenos Aires Subway Car Contract: Net Impact on the Government of Export-Import Bank Financing," Philadelphia, Pennsylvania, undated.

To determine the Eximbank's borrowing cost, it was assumed that the Bank would borrow at the 3-5 year government bond rate. From the resulting interest cost of borrowing, the total interest payments received from the subsidized export credit were subtracted in order to obtain the net borrowing cost to the Eximbank. Finally, the Eximbank's net borrowing cost was subtracted from the incremental government tax receipts in order to arrive at the net gain to the government.

The study assumed two different types of Eximbank loan rates: a 9 percent rate with 17 semi-annual repayments and a 10 percent rate with 24 semi-annual repayments. The net cumulative gain to the U.S. government of the 9 percent loan is shown as $762.4 million in 1981 dollars. The 10 percent loan would lead to a net gain of $823.5 million, again in 1981 dollars.

Net Gains to U.S. and Local Governments
(Millions of 1981 Dollars)

	Entire Loan Period
Net Increase in U.S. Government Receipts minus Outlays	848.1
Net Interest Cost to Ex-Im Bank (9 percent Loan)	85.7
Net Gain to U.S. Government with 9 percent Loan	762.4
Net Interest Cost to Ex-Im Bank (10 percent Loan)	24.6
Net Gain to U.S. Government with 10 percent Loan	823.5
Net Increase in State plus Local Government Receipts minus Outlays	186.6

The Wharton study showed that with a total of 732.0 million 1972 dollars of production sold to the subway project over the years 1981 through 1991, a GNP increase of 1.6 billion 1972 dollars would be realized, yielding an income multiplier of 2.2 times the initial expenditures. Of this, the U.S. government would receive 32.5 percent via increases in tax revenues over the period, while state and local governments would receive 3.1 percent via increased tax revenues.

CRITIQUE OF WHARTON STUDY: The criticism of the Wharton study was made by the Eximbank staff for two main reasons: technical and conceptual. The use of the discounted present value method in the Wharton study was criticized as improper and misleading on technical grounds. Present value is relevant in evaluating investment-type (financing) decisions by indicating how much future income must be received in order to maintain the present purchasing power of its original investment in light of the fact that all future receipts are worth ever less as time goes on. Instead of the present value method, the Eximbank staff recommends using the discounted cash flow method which is more relevant in evaluating consumption-type (alternative) decisions by indicating how much future outlay costs in today's dollars. The same nominal outlay costs less the further out in time it is made. The Wharton study measured only the present financial cost to Eximbank of future subsidy payments; however, the present economic cost to the country is the loss in value of the resources between when they were invested and when they were repaid. Consequently, the Wharton study came out with the cost estimate "some one-tenth the size that standard mathematical calculations would yield."*

As for conceptual issues, the Eximbank staff criticized that the study failed to answer directly the crucial question: Why should the money be spent to support output through Eximbank instead of agriculture, home building, or mass transit? The Wharton study failed to understand the fundamental fact that "all" expenditures in an underemployed economy necessarily create the multiplier effect, and therefore the study failed to compare alternative expenditure requirements facing the government. Rather, the study implied that the answer to the question of why allocate resources to Eximbank is that "all" actions having a net benefit, through a multiplier, should be undertaken, regardless of the implication for limitless ballooning of government expenditures.

There were other weaknesses in the study not mentioned by the Eximbank staff. For example, the study failed to consider the implications of the possibility that the subway project export may still be made even in the absence of the Eximbank support. The study also did not make explicit the implications of the subsidized export, such as a potential dollar appreciation and its negative effect on other non-subsidized export price inflation in a full-employment economy, and the income distribution effect of the export subsidy. Other reports have also tried to calculate the multiplier effect of exports in the economy. These estimates range from a low of 1.5 to a high of 3.5. The U.S. Chamber of Commerce, for example estimated a range from 2.0 to 3.5, however, the most probable multipler figure was estimated between 2.0 and 2.5 and was in line with the Wharton study reviewed above.

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*Jim Cruse, "Critique of Westinghouse/Wharton Cost-Benefit Analysis of Ex-Im Bank Credit Support," U.S. Export-Import Bank unpublisned memorandum, undated.

ADDITIONALITY

One may define addtionality simply as a measurement of the net increase in value of U.S. exports that result from official export financing programs. If it can be demonstrated that a substantial portion of export sales that use government credit support would not be made in its absence, then it is reasonable to assume that additionality exists in that case, but one should also consider the effect on non-subsidized exports. Therefore, it is difficult conceptually, as well as practically, to determine the degree of additionality of government export credit programs with any precision, when we consider the total macroeconomic effects on subsidized and nonsubsidized exports.

Two primary methods have been used to measure additionality. The first method involves the use of quantitative procedures, including econometric analysis. The second method involves a survey of export transactions that asks whether the official credit support or its absence was decisive in the ability or failure to export. Both methods, however, have inherent weaknesses, which make their results less than conclusive.

BOHI STUDY: Douglas Bohi, in his 1972 study*, statisically tested the effectiveness of Eximbank activity in promoting U.S. exports. He first hypothesized that, if Eximbank activity had a significant influence on exports, then a relationship should exist between changes in exports and Eximbank authorizations to different countries. Yet, on the basis of a sample of 33 trading areas for 1968 through 1970, he found no significant relationship. He then tested the relationship between Eximbank authorizations and the expansion of U.S. exports by type of commodity rather than by country of export destination. A simple regression test on a sample of 12 commodity classes of U.S. exports for 1966 through 1969 showed again no significant relationship.

The crucial weakness of the Bohi study was that it did not isolate additionality resulting from official export subsidy programs from other important competitive factors such as product quality, technology, after-sale service, marketing efforts, delivery terms and prices. Considering the overwhelming importance of the latter, it is no wonder that the Bohi study failed to establish any significant relationship between Eximbank authorizations and "aggregate" export performance either by importing country or by export commodity.

U.S. TREASURY STUDIES: The U.S. Treasury Department twice has attempted to measure the additionality factor in Eximbank programs, one for FY 1976 programs and the other for FY 1978 programs. Treasury defines additionality narrowly as "the probability that Eximbank programs have in fact fostered U.S. exports by overcoming capital market imperfections and by meeting the competition of foreign official export credit agencies."* Additionality, defined in this way, was not meant to measure Eximbank's total impact either on overall U.S. exports or on the U.S. trade balance. The study only attempted to calculate export sales booked as a result of the Eximbank presence.

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*Douglas R. Bohi, "Export Credit Subsidies and U.S. Exports: An Analysis of the U.S. Ex-Im Bank" in Joint Econonomic Committee, The Economics of Federal Subsidy Programs: A Compendium of Papers, U.S. Congress, June 1972.

In order to determine the probability that the export value supported by each Eximbank commitment was additional, the study examined the selected characteristics of every commitment for FY 1978, such as the degree of access by an importing country to private capital markets, the term to maturity of Eximbank credits, size of credit, and the foreign official export credit competition. Basically, the study determined the extent to which these characteristics differ from export financing norms believed to exist in private markets. To the extent that Eximbank credit characteristics fall outside perceived norms in private markets, a higher probability of additionality is assumed. The overall probability of additionality of exports associated with Eximbank commitments was then calculated as the weighted average of individual probabilities, using the export value supported by individual commitments as the weights.

The Treasury study concluded that some degree of additionality existed for all three of the major types of Eximbank programs (direct loans, guarantees, and insurance) for both FY 1976 and FY 1978 program studies and is summarized in Table 1.

Table 1

Additionality of Three Eximbank Support Programs

	Loans	Guarantees	Insurance
Aggregate Additionality			
FY 1976 Programs	64%	31%	27%
FY 1978 Programs	72%	34%	33%

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*U.S. Treasury, "United States Treasury Report on the Additionality of U.S. Export-Import Bank Programs in Fiscal Year 1978," Washington, D.C., January 1980.

CRITICISM OF TREASURY STUDY: The General Accounting Office criticized the methodology of the Treasury study as "circular" logic.* It argued that the problem with the study was that it defined additionality in such a way that virtually guarantees the conclusion as noted above. It was alleged to be circular to argue that "to the extent that Eximbank credit characteristics fall outside of perceived norms in private markets, a higher probability of additionality is assumed." Since Eximbank has been part of the international lending system for over four decades, those "private capital market norms" are likely to be what they are, precisely because Eximbank dominates the long-term market.

CONGRESSIONAL RESEARCH SERVICE STUDY - 1978: Another quantitative study was undertaken by the Congressional Research Service (CRS).** Unlike the Treasury findings, the CRS study showed the additionality generated by the Eximbank's FY 1976 direct loan program only at about one-eighth the Treasury estimate for aggregate additionaity. The CRS methodology assumed that the subsidy component of the Eximbank loan program was in effect a lowering of price to the importer. The study attempted to measure the response of importers to that cut in price. It was for this reason that the CRS study made no attempt to include the additionality that might come from the guarantee and insurance programs run by Eximbank. The reduction in the price of the export cannot be calculated in the case of the guarantee and insurance programs with the same precision as it could be in the case of direct loans, where the market and subsidized rates of interest are known.

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*U.S. General Accounting Office, To Be Self-Sufficient or Competitive? Eximbank Need Congressional Guidance, Report to the Congress, June 24, 1981.

**Jane Gravelle, Impact of Eximbank on U.S. Exports, Congressional Research Service, The Library of Congress, April 25, 1978.

CONGRESSIONAL RESEARCH SERVICE STUDY - 1976: Another earlier CRS study made a rough estimate of additionality of U.S. power plant exports supported by Eximbank from 1973 through 1975.* Assuming an additionality of zero for nuclear power plant exports to advanced nations, 50 percent to intermediate nations and 100 percent to less developed countries, the study crudely concluded that at least 10 percent and perhaps as high as 50 percent of free world nuclear power plant exports during the 1973-75 period could be considered "additional."

CASE HISTORIES

Surveys of individual case histories have also been used to measure additionality. In a review of 140 cases offered direct loan support by Eximbank during the 1978-79 period, Eximbank determined that of the 55 export sales that U.S. firms did not win, seven sales were lost because of insufficiently competitive financing.** This did not include cases where Eximbank believed noncompetitive financing contributed to a loss but was not the primary reason, or cases where Eximbank could not determine the reason for a loss.

GAO STUDY: The General Accounting Office also made a questionnaire survey of exporters about specific 1978 sales for which Eximbank offered long-term financing.*** The 86 responses identified 10 sales, valued at $434 million, that were lost to foreign competitors primarily because of noncompetitive financing. The 10 cases did not include the exporters who did not formally request Eximbank financing because the expected financing terms were known to be unsuitable. These firms indicated that 44 potential sales, valued at about one-half billion dollars, were lost because they were unable to arrange for competitive financing.

The additionality of exports due to competitive export credit financing is highly speculative. No doubt it depends on the industry, the level of economic activity, as well as many other economic factors. Yet for capital goods, additionality ranges between 30 percent and 70 percent and is most probably between 50 percent to 60 percent. This figure is in line with most of the studies reviewed.

COSTS OF SUBSIDY PROGRAMS

The U.S. economy is predicated on the belief that, as a general rule, free markets provide the most efficient allocation of resources possible. Critics of official credit support programs, both export and non-export related, claim that the subsidies in general represent a diversion of resources from higher, more efficient uses to lower, less productive uses. For example, a 1981 study by the Congressional Budget Office argued that U.S. citizens were paying additional (net) costs of between $200 million and $1 billion annually for Eximbank programs.* It alleged that the added costs were largely redistributed from nonbeneficiaries to U.S. exporters, foreign importers and banks, with the remainder absorbed in efficiency loss.

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*Congressional Research Service, "The Economics of Export Promotion," an internal CRS memorandum, 1976.

**U.S. General Accounting Office, Financial and Other Constraints Prevent Eximbank From Consistently Offering Competitive Financing for U.S. Exports, Report to the Congress, April 30, 1980.

***Ibid, pp. 10-11.

According to the study, when Eximbank subsidized direct loans were made in a fully employed economy, or otherwise increased export volumes by reducing domestic output or by increasing imports, nonsubsidized U.S. citizens gave up domestic investment opportunities that would have earned the market rate of interest. Alternatively, they may borrow to finance additional imports and incur additional foreign debts on which they paid interest at the market rate. The subsidized Eximbank loan returned only part of the loss because it earned the lower, subsidized interest rate. U.S. citizens as a group recaptured part of the loss to the United States through increased profits of U.S. exporters. But since there will typically be some net transfer to foreigners or some loss from the inefficient shift of resources out of areas where they were being profitably used before the subsidy, without an offsetting gain in economic efficiency, the losses to U.S. citizens exceeded the gains to the industries being subsidized: The United States as a whole must lose from the program.

One weakness of the CBO study is its assumption of a full-employment U.S. economy which is generally not a true picture of reality. Because of this extreme assumption, the CBO study either does not recognize additionality for the total economy in the absence of either a corresponding decline in domestic consumption/investment or a similar increase in imports.

From the national income identity,

$$Y = C + I + G + (X - M).$$

If the economy is at full employment, so that Y is at its maximum $(Y = \hat{Y})$, rearranging the identity produces:

$$X = \hat{Y} - C - I - G + M.$$

In order for additionality to occur, therefore, consumption, investment, or government expenditure must fall, or imports must rise. However, it should be clear that when the economy is less that fully employed, additionality can take place out of additional production.

John Boyd also made a study of Eximbank subsidy cost to the U.S. economy and came up with an estimate of about $200 million per year for the 1976-80 period.* He found that the subsidy cost increased substantially over the sample period and by 1980 may have reached as high as $650 million. Admitting that the "indirect" costs and benefits of Eximbank are hard to identify and measure, Boyd concentrated on "direct" costs and benefits, using the risk-adjusted discount rate derived from the loan portfolios of major commercial banks. This study, however, is rather narrowly focused, ignoring the impact of Eximbank programs on export demand, employment and inflation. His main thrust is whether Eximbank financing of U.S. exports is preferable to commercial financing or not. Therefore, the study's ultimate conclusion that the costs of Eximbank financing outweigh the benefits, is based on incomplete and partial consideration of all the relevant factors.

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*Congressional Budget Office, "The Benefits and Costs of the Export-Import Bank Loan Subsidy Program," Washington, D.C., June 1981.

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*John Boyd, "Eximbank Lending: A Federal Program That Costs Too Much," Federal Reserve Bank of Minneapolis Quarterly Review, Winter 1982.

ANNEX II

LITERATURE SURVEY

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ANNEX III

COLUMBIA MACHINE, INC., 107 Grand Boulevard, Vancouver, WA 98661

- Mr. Fred Neth, Sr., Chairman of the Board
- Mr. Walter Neth, Vice President - Special Products
- Mr. Gordon W. Smith, Corporate Credit Manager
- Mr. John B. Klattenhoff, Sales Manager, International Sales Division

THE CROSS COMPANY, 17801 Fourteen Mile Road, Fraser, Michigan, 48026

Mr. Ralph E. Cross, Jr., President

Mr. Robert T. Jeffares, V-P Finance and Treasurer, Cross & Trecker Corporation

Mr. Robert H. Lambertsen, Vice President, Marketing

Mr. O. Thomas Evans, Sales Manager, Export

THE FRENCH OIL MILL MACHINERY CO., Piqua, Ohio, 45356

Mr. Daniel P. French, President

Mr. Evan A. Werling, Vice President and Treasurer

F. JOS. LAMB CO., 5663 E. Nine Mile Road, Warren Michigan, 48091

Mr. Carlton R. Lindell, President and President Lamb Technical

Mr. Paul Stoffa, Group Vice President, Planning and International Marketing

Mr. John D. Borseth, Vice President Sales and Marketing

Mr. Robert C. Dennis, Treasurer

PETROTECH, 108 Jarrell Dr., P.O. Box 503, Belle Chase, LA 70037

Mr. Doug Moore, P.E., President

Mr. Henry Donald Seaton, Consultant

SOFEC, 2000 West Loop South, Suite 990, Houston, Texas 77027

Mr. William L. Kiely, President

Mr. Robert H. Gruy (P.E.), Senior Vice President

Mr. Sylvan Schwartz Jr., Vice President - Finance

(EXHIBIT B)

DE SMET USA CORPORATION
2625 Cumberland Parkway / Suite 200
Atlanta, GA 30339

RECEIVED
NOV 23 1982
ANSWERED

Atlanta, June 29, 1982

Mr. Gregorio Mora S.
Pres-Treas
AGROMORA INDUSTRIAL S.A.
Santo Domingo, D.N. Dominican Republic

Subject: Equipment to be furnished by EXTRACTION DE SMET S.A.

Dear Mr. Mora:

In regard to the conferences we have held and in reply to your telex dated June 14, I am taking the liberty of confirming the following:

1. The contract price without financial charges proposed by De Smet is 185 million Belgian francs.

This price arises out of converting Belgian francs into American dollars at the rate of 45.07 FB/$1.00 US in the following amounts.

Extraction plant	$ 2,990,670
Refining Plant	1,113,688
	4,104,358 x 45.07 = 1 5,000,000 FB's

(handwritten note..new price offered 9/23 3,700,000 including refinery)

For your information the June 25 rate of US dollars against the BF is 47.40 and so the sum of 185 million FB represents on 3,902,953.00 US$ that is, a saving for AGROMORA of US$ 201,405 or practically 5% of the total amount.

2. Issuance of the credit prepared by CREDIT LYONNAIS of Belgium may be modified further by the following payment terms:

10% payable when contract signed

5% against letter of credit when shipped

85% subject to financing at 10% interest annually.

The first payment will fall due on the 28th month, that is, 18 months after principal shipment.

The new credit-granting plant specifies on page 13 the administrative costs and other financial expense.

Administrative expense must be paid in cash to the bank.

Other expenses may be added onto the total credit amount and be subject to financing.

4. The possibility of including prepayments in the financing on the contract amount has been regarded by De Smet as acceptable.

5. Due to the grace period in payments, the quantities payable at the 28th, 34th and 40th months are important to AGRAMORA.

For this reason we suggest payment of intermediate interest during the 16th and 22nd months. This would represent a very considerable saving to your cash.

The attached sheets show clearly the savings that would be made.

6. Finally as regards the guarantee it would be indispensable to secure:

- Approval of the Monetary Committee
- Guarantee from a local bank such as the ROYAL BANK OF CANADA.

There being nothing further and hoping to be favored with your order I remain

cordially

DE SMET U.S.A. CORPORATION

Guy L. Posschelle, Vice President

(EXHIBIT C)

SIMON-ROSEDOWNS Limited
Cannon Street
Hull
England HU2 OAD

NOV 23 1992

June 29, 1982

Granja Mora, C. por A.
Santo Domingo, Dominican Reupblic

Gentlemen:

We are writing in regard to our quotation dated June 29, 1982 and are happy to list below the financing facilities we can offer you:

a) 10% of value of contract is payable as deposit when contract is signed.

b) 10% of the value of each partial shipment is to be payable in cash against documents and sigh draft in the Dominican Republic.

c) 80% of the contract value is payable in ten equal six-monthly payments covered by letters of exchange at term drawn for each partial shipment and which fall due 30-36-42-48-54-60-66-72-78 and 84 months counting from contract date.

d) The term letters of exchange shall include interest at the rate of 10% annually, figured on the balance pending for payment from the shipping date to the respective due date of each. In the event that a particular letter is not paid when due an additional interest rate shall be payable at the rate of 15% (fifteen percent) annually from the due date until the proceeds in US dollars shall have been received by us here in the United Kingdon.

e) Shipping documents covering each shipment shall be furnished against payment of the sight draft specified in paragraph b) mentioned above and acceptance of the term letters of exchange drawn to cover payments specified in paragraph c) above.

f) Any bank charges or other expense payable outside the United Kingdon shall be for the account of the purchaser.

g) The above mentioned terms are subject to the following conditions:

  1. An irrevocable and unconditional guarantee on your part and under terms acceptable to us to make payment in Dominican pesos on the due dates stiuplated under this contract.
  2. A declaration from the Central Bank of the Dominican Republic in terms acceptable to the United Kingdon authorities in which it makes itself responsible for immediate and irrevocable transfer of all sums provided for under this contract paid by you in Dominican pesos to our account in the United Kingdon in U.S. dollars.
  3. Approval of corresponding authorities in the United Kingdom.

Hopingall these terms will be acceptable to you we send our regards and remain

cordially

IAN RILEY

Sales Manager

(EXHIBIT D)

EXIMBANK REPORT

RECEIVE
FEB
WERED

February 28, 1983

Eximbank's Annual Competitiveness Report was released last week. It reveals a wide disparity between the Bank's own estimate of its competitiveness and that of the U.S. bankers and exporters who are its clients.

While Exim, in general, found its programs to be adequately competitive, the Bank's users judged that it "deteriorated across the board" in 1981.

Exim is required by law to submit the report to Congress each year. It compares the Bank's programs with those of its major official competitors, particularly in France, Germany, Japan, and the United Kingdom. The Bank is also required to conduct a survey of its clients and publish the results.

The new competitiveness report covers the period January 1, 1981 to December 31, 1981. Although it is dated December 1982, it was not transmitted to the Congress until February 24, 1983.

The report concludes that Exim was "very competitive" in short term programs (repayment terms of 180 days or less); "relatively uncompetitive" in medium term programs (181 days to five years); and "relatively competitive" in long term transactions (over five years).

However, the results of a confidential survey of the Bank's clients were not so cheerful. The report summarizes: "In the opinion of the exporters and bankers surveyed, the absolute value and relative competitiveness of Eximbank deteriorated across the board in FY 1981. No program nor any element of a program was judged to have improved its effectiveness or relative competitive position in 1981. Everything was judged similar to 1980 or worse."

In a letter transmitting the report to Congress, Chairman William Draper concluded: "The recent declining trend in U.S. market interest rates and this Administration's success in negotiating significant reductions in export credit subsidies imply a potentially larger role for private sector financing of competitive export transactions in the future."

The 77-page competitiveness report is available from the Office of Public Affairs, 811 Vermont Avenue, N.W., Washington, D.C. 20571, telephone (202) 566-8990.

James H. Hogue, Editor

All rights reserved. Published each Monday by International Publications, 1835 K Street, N.W., Suite 400, Washington, D.C. 20006 (202) 466-3830. Subscription price $345 per year; includes 52 weekly issues and four quarterly indexes. Delivery by first class mail. Add $50 for airmail outside the United States, Canada or Mexico.

(EXHIBIT E)

November 19, 1982

Mr. William H. Draper III
President and Chairman of the Export-Import
Bank of the United States
811 Vermont Avenue, N. W.
Washington, D. C. 20571

Dear Bill:

Thank you for your November 12, 1982 letter regarding Eximbank's reason for not offering competitive export financing for our potential sale of palm fruit processing equipment in Colombia.

In your letter you stated that Eximbank has found that interest rates roughly 100 to 150 basis points above those offered by our foreign competitors can be considered competitive financing for U.S.-manufactured-products. You mentioned this was especially true since other government-supported export credit programs require that a guarantee or insurance be obtained -- which would, generally, raise the cost of foreign financing by as much as 1% or more above the Arrangement minimum rates.

The medium-term financing program for which we requested competitive financing does not provide interest rates roughly 100 to 150 basis points above those offered by our foreign competitors. As mentioned during the NAM conference in New York, for an intermediate country, OECD competitors have been quoting 10-1/2% versus a minimum of 12% from our Export-Import Bank. Since a commercial bank must be included in the program and adds 1% interest to the Exim financing rate, then truly 13% is the minimum we can offer. Our experience has shown that financial institutions consistently require FCIA insurance or Exim guarantees for export orders we pursue. Therefore, we also must incur an increased financing cost comparable to the insurance costs of our foreign competitors. As a result, the financing we offer potential buyers of American products is approximately 250 basis points above the financing rates offered by our foreign competitors, when the adders for insurance are considered in both Ex-Im and OECD packages.

Because of this significant disparity between our financing rates and those offered by our foreign competitors, we continue to lose every export sale in which competitive financing is a requirement. The loss of export sales due to noncompetitive financing during the past year and a half has been devastating to our company. While our foreign competitors take in the orders, we are faced with the most severe business down-turn in our 82-year history, most of which can be attributed to our inability to obtain competitive medium-term export financing for the foreign buyer. Our employees would be working overtime if we had not lost our export business due to noncompetitive financing. Instead, for the first time in our company's 82-year history, we have been faced with employee cutbacks and are planning to reduce our work schedule to a three-day week beginning in December. We cannot continue to be a viable company in the export market without competitive export financing!

During the NAM conference you indicated that for long-term financing, Eximbank provides 12% interest rates versus 11.4% being offered by our foreign competitors. Why does the long-term financing program enjoy only a six-tenths of 1% interest rate differential, while medium-term programs (such as the one used by our company) must incur an interest rate which is 250 basis points higher than those offered by our foreign competitors? It's difficult to understand why the long-term program would need an approximate 200 basis points advantage over the medium-term program. It's equally difficult to understand how the medium-term programs can be classified as competitive, when their financing rates are approximately 250 basis points higher than interest rates offered by our primary OECD competitors.

Bill, I have a lot of respect for your position at the Eximbank and recognize that you have a very difficult job to fill. You have established the first small manufacturer's program in the history of the Eximbank -- for this we are grateful. However, the small manufacturer's program will be of little benefit to preserving jobs in America unless it provides truly competitive financial rates and terms. It's a shame to see Congress implementing multi-billion dollar jobs programs to put unemployed Americans back to work, when American workers are losing their jobs because the products they produce cannot be financed on a competitive basis in the export market. Over the years, Exim has been the only profitable jobs creation program enacted by Congress. With the exception of last year and the current year, it has been profitable and successful. It would be a shame to see American workers lose their jobs permanently because of temporary profitability problems with Exim programs. I sincerely hope you and the other directors will give strong consideration to making the medium-term program more competitive. It's time to stop giving our foreign competitors a financing advantage over American-made goods. It's time to put Americans back to work!

Very truly yours,

THE FRENCH OIL MILL MACHINERY COMPANY

E. A. Werling
Vice President - Finance

EAW/dlm

(EXHIBIT F)

EXPORT-IMPORT BANK OF THE UNITED STATES
WASHINGTON, D.C. 20571

December 9, 1982

DEC 15 1982
[illegible]

Mr. E. A. Werling
Vice President--Finance
The French Oil Mill Machinery Company
Piqua, Ohio 45356

Dear Evan:

Your letter of November 19 accurately describes the inconsistencies that have emerged from Eximbank's attempt to save medium-term U.S. exporters from the total elimination of subsidized export credit. I admit Eximbank's Medium-Term Credit Program and Small Manufacturers Credit Program offer less competitive financing than the Bank's long-term direct credits. However, the present character of these programs must be seen in the context of an environment of continuing budgetary restraint, so that a "modest" start was necessary to minimize the opposition to any new programs by entities inside and outside the government.

Since the prime alternative considered by others is no program, not a more competitive program, it is essential that we develop a base of data which indicates how successful or unsuccessful the programs are in meeting the competition. Only then can interagency consensus for substantive program changes be established. While the pain of patience may be great for you, I ask that you give us both time and an opportunity to support every potential sale you encounter. We need every particle of information the medium-term export community can generate regarding won and lost sales. You and I share the same ultimate goal of a "level playing field" for U.S. exporters, but we must be careful that we do not push our objective faster than feasible or build a bigger goal than is supportable. We do not want to win the battle and lose the war.

Given your experience in this area, I am sure you will be able to provide the Bank with many of the detailed pieces of information needed to develop the medium-term case. While any of us here at the Bank would be glad to receive your flow of data, perhaps it would be most efficient if you directed your input to one or two of Eximbank's staff with whom you are familiar. As I understand you have talked frequently with Art Pilzer of the Medium-Term Credit Program and Piper Starr of Policy Analysis, might I suggest that they be your focal point.

Sincerely,

Bill

William H. Draper III

LOST CONTRACTS

Senator D'Amato. Mr. Werling, in light of your experience of the past 2 years, can you provide the subcommittee with information concerning specific contracts that you lost as a result of procedures and policies? Do you have examples?

Mr. Werling. Absolutely. In fact, we have given them to Mr. Draper at the Eximbank.

Senator D'Amato. I would appreciate, and I would hold the record open for that information.

Mr. Werling. We would be happy to.

Senator D'Amato. Illustrating the competition, the financing which they received from foreign governments involved, so that we can then look into this matter in greater detail.

Mr. Werling. Incidentally, in exhibits B and C, I have examples of what our Belgium competition has been offering over the past 2 years.

Senator D'Amato. Yes.

Mr. Werling. And also for the United Kingdom. You will notice that in both situations their proposals for export financing are far more favorable than what we can get at our Eximbank here in the United States.

Also, I would like to point out that George Washington University recently completed a study at the request of Richard McElhinny of the Department of Commerce regarding what was happening to small business and employment in the United States because of Eximbank policy. You will find that on page 2 of my written report.

Their comment was that first of all the firms that they visited, of which French Oil was one of those, are small businesses that are very competitive in their field. But, second of all, it is export financing and noncompetitive export financing of the United States that is causing us to lose our business.

Senator D'Amato. As a result of the time constraints that we have, I would like to assure you that all of that information that you have in your written statement will be made part of the record. Again, we certainly have a sense of the problems which you have outlined. But I would again ask you to please provide the subcommittee with specific examples where your company lost out as a result of the Eximbank's noncompetitiveness.

Mr. Werling. We would be very happy to, sir.

Senator D'Amato. We want to thank you very much for your time.

Mr. Werling. Thank you very much.

Senator D'Amato. It is good to see you.

[The information follows:]

FRENCH

THE FRENCH OIL MILL MACHINERY CO. **PIQUA, OHIO 45356**

May 6, 1983

Miss Jane Magee
Senate Appropriations Committee
Room S-125
The Capitol
Washington, D. C. 20510

Dear Jane:

The following is a list of some (but not all) of the orders lost because of our inability to obtain competitive export financing:

COUNTRY IN WHICH SALE WAS LOST	APPROXIMATE CONTRACT VALUE OF LOST SALE
Honduras, C.A.	$16,400,000
Cairo, Egypt	6,600,000
Mexico	3,800,000
Mexico	1,800,000
Ethiopia	5,200,000
Syria	5,300,000
Colombia	800,000

I could list additional countries in which we lost export sales due to noncompetitive financing; however, I believe it is well documented that during the past several years the Eximbank medium-term program has not been competitive with most OECD countries. Even the Eximbank annual report states that the Bank has been less competitive in the medium-term financing program.

Sincerely,

THE FRENCH OIL MILL MACHINERY CO.

E A Werling
E. A. Werling
Vice President-Finance

EAW-er

Georgetown University

STATEMENTS OF:

REV. WILLIAM L. GEORGE, SPECIAL ASSISTANT TO THE PRESIDENT OF GEORGETOWN UNIVERSITY

REV. HAROLD BRADLEY, DIRECTOR, CENTER FOR IMMIGRATION POLICY AND REFUGEE ASSISTANCE, GEORGETOWN UNIVERSITY

SUPPORT FOR REFUGEE PROGRAMS

Senator D'Amato. William L. George and Harold Bradley from Georgetown University. Reverend George and Reverend Bradley.

Reverend George. Mr. Chairman and members of the committee, I am Father William George, special assistant to the president of Georgetown. And with me is Father Bradley, the director of the Center for Immigration Policy and Refugee Assistance. We thank the committee for letting us testify last year, and your support.

We have begun discussions with the Bureau of Refugee Programs at State, and would ask the committee if in 1984 they would provide $360,000 to support the project.

We have continued to keep our Organization of American States and their representatives informed, and with the planning grant we have received, Father Bradley visited experts in the United States, as well as in Latin America and the Caribbean and was quite successful in gaining their support and their willingness to help.

The purpose of the project is to encourage through the collection of the proper information sending countries to encourage them to discern various ways that they can accommodate their migrants and keep them as their own, you know, strong national resources. I thank you for the opportunity to testify, and I would request that this statement be submitted for the record.

[The joint statement of Reverend George and Reverend Bradley follows:]

STATEMENT OF

REV. WILLIAM L. GEORGE, S.J.

SPECIAL ASSISTANT TO THE PRESIDENT OF GEORGETOWN UNIVERSITY

AND

REV. HAROLD BRADLEY, S.J.

DIRECTOR, CENTER FOR IMMIGRATION POLICY AND REFUGEE ASSISTANCE, GEORGETOWN UNIVERSITY

Mr. Chairman and members of this Committee I am Father William L. George, S.J., Special Assistant to the President of Georgetown University. With me is Father Harold Bradley, S. J., Director of the Center for Immigration Policy and Refugee Assistance.

Last year we testified before this Committee on the need for a private sector, multilateral consideration of a policy response to the unprecedented numbers of displaced people in our hemisphere. We have begun discussions with representatives of the Department of State concerning common interest and the merits of this project.

We request that the Committee provide $360,000 in FY'84 to the Department of State for this project which is under consideration by the Bureau of Refugee Programs.

Georgetown University has continued to discuss this proposal with representatives of the Organization of American States and institutions and individuals in Central and South America.

In September of 1982 Georgetown University received a planning grant of $27,000 from the Bureau of Refugee Programs, United States Department of State, to plan a collaborative project with institutions in several nations to study the causes and impacts of migration on sending countries.

In October and November the Center consulted with more than 20 experts from institutions in the United States on the proposed study. In November the Center sent four representatives to visit scholars and research institutions in Latin America and the Caribbean to inquire about their interest in collaborating in this project and their suggestions of issues to be addressed.

The study has four objectives: to increase knowledge about the determinants and consequences of migration in sending countries; to contribute to policies that incorporate the migration dimension in national, bilateral, regional, and hemispheric contexts; to establish links among research institutions to carry out comparative studies of the influence of migrants on sending societies; and to disseminate research results in a variety of formats in order to reach a wide audience.

The project proposes to collect information on three areas of concern: the degree to which labor markets in sending countries are able to accommodate the growth in labor force age populations; the ways in which the increasing numbers of displaced persons add to the complexities of an already volatile political and economic situation; and the need to know more about the social, economic, and political determinants in consequences of migration, particularly for the sending countries.

The Center plans to achieve these objectives by inviting scholars and institutions in the United States and in other nations of the Americas to undertake country or regional specific research; by organizing regional workshops with researchers; and by organizing publication of materials for conferences and curricula appropriate for secondary schools and institutions of higher learning.

During the past year the United States as represented by the Department of State and the Immigration and Naturalization Service has continued to respond to the crisis of displaced people in Central America with unilaterally determined policies. Meanwhile it is now estimated that there are approximately 500,000 people who are what we might consider internal refugees in Guatemala and El Savador. There are another 250,000 to 500,000 people who have left El Salvador and Guatemala because of the political disturbances there and have moved to neighboring countries including the United States. Although it is the policy of the United States to decide on a case-by-case basis whether a displaced person from El Salvador or Guatemala is a political refugee, the United Nations High Commissioner for Refugees, determined in 1980 that every citizen of El Salvador outside of that country should be considered a political refugee. We have become aware of a growing sympathy for these displaced people among some of the citizens of the United States. This is manifest in the growth of what has been called the Sanctuary Movement to provide assistance to persons from El Salvador and Guatemala who are considered to be refugees and not economic migrants. The proper response to the needs of these people would seem to be a multilateral program which would provide assistance for them as close as possible to their homes so that they would not be forced by hardship to migrate to the United States.

We ask the Committee to provide the necessary funds to the Department of State and encourage a cooperative study of these problems by institutions in various nations so that an acceptable multilateral response to them may be planned.

On behalf of our President, Reverend Timothy S. Healy, S.J., thank you for the opportunity to appear before this Committee.

GEORGETOWN UNIVERSITY
CENTER FOR IMMIGRATION POLICY AND REFUGEE ASSISTANCE

Consultants to the Hemispheric Migration Project
(from October, 1982)

John Bailey, Ph.D.	Department of Government, Georgetown University
Margaret Boone, Ph.D	Center for Population Research, Kennedy Institute, Georgetown University
Roy Branson, Ph.D	Kennedy Institute for Ethics, Georgetown University
Roy Bryce-Laporte, Ph.D.	Research Institute on Immigration and Ethnic Studies, Smithsonian Institution
Michael Carter, Ph.D.	Department of Economics, Georgetown University
Elena Castedo-Ellerman, Ph.D	Castedo, Ellerman and Associates, Ltd.
Elsa Chaney, Ph.D.	Equity Policy Center
William Cressey, Ph.D.	Director, Study Abroad Office, Georgetown University
Emmett Curran, S. J., Ph.D.	Chairman, Department of History, Georgetown University
Thomas Dodd, Ph.D.	Department of History, Georgetown University
John Elac, Ph.D.	InterAmerican Development Bank
Cesar Fighetti	Castedo, Ellerman and Associates, Ltd. formerly Executive Officer for Education, Science and Culture, OAS
Murray Gendell, Ph.D.	Chairman, Department of Demography Georgetown University
Ruth Johnston	Financial Consultant

Charles Keely, Ph.D.	Sr. Associate & Acting Deputy Director, Center for Policy Studies, Population Council
Thomas Merrick, Ph.D.	Director, Center for Population Research, Kennedy Institute, Georgetown University
Ransford Palmer, Ph.D.	Department of Economics, Howard University
Harvey Summ	Director, Latin American Studies Program, Georgetown University
Michael Teitelbaum, Ph.D.	Carnegie Endowment for International Peace
Ambassador Viron Vaky	School of Foreign Service, Georgetown University
Hilbourne Watson, Ph.D.	Department of Political Science, Howard University

Persons, Places, Institutions Visited.

Brazil

Isaac Kerstenetzky, Social Research Center - Pontificia Universidade Católica, Rio de Janeiro

Eduardo Albertal, Coordinator General, Estudios Conjuntos Sobre Integración Económica Latinoamericana (ECIEL)

Chile

Oscar Aguero, CONYCIT

Marta Blanco, Anchorwoman, Channel 13

Luis Brahm, Subdirector, Centro de Desarollo de la Educación

José Joaquín Brunner, Director, Facultad Latinoamericana de Ciencias Sociales

Rigoberto Díaz, Subdirector, La Tercera

Michael Durkee, Political Attaché, United States Embassy in Chile

Juan Enrique Frommel, Assistant Secretary for Education, Subsecretario de Educación

Techa Heiremans, Columnist, La Segunda

Richard Hughes, Director, Organization of American States - Chile

Betty Johnson, Director, Documentación para América Latina, Consejo Económico para América Latina

Guillermo Maccio, Subdirector, Centro Latinoamericano de Demografía

Carlos Massad, Director, CIM, Chile

Roberto Mesa, Director Crónicas, El Mercurio

Alfonso Monardes, Profesor, Universidad de Chile

Andres Passicot, Director, Instituto Nacional de Estadística, Gobierno de Chile

Rev. Renato Poblete, S.J., Director, Instituto Latinoamericano de Doctrina y Estudios Sociales

Andrés Sanfuentes, Researcher, Instituto Latinoamericano de Doctrina y Estudios Sociales

Manuel San Martín, Cronicas, El Mercurio

Odette Taclas, Chief, Demography Department, Instituto Nacional de Estadística

Christián Vives, Sub-Director, Centro de Investigaciones Socio - Culturales, Centro Bellarmino

Rev. Mario Zañartu, S.J., Director, Centro de Investigaciones Socio-Económicas, Centro Bellarmino

Colombia

German Arciniegas, Decano, Facultad de Filosofía, Universidad de Los Andes

Marta L. de Arévalo, 1er Secretario, División de Fronteras, Ministerio de Relaciones Exteriores

Paul de Bedout, 1er Secretario, Subsecretaria de Política de Exterior, Ministerio de Relaciones Exteriores

Ramiro Cardona, Secretario General, Corporación Centro Regional De Población

Fernando Cepeda Ulloa, Profesor, Dept. de Ciencia Política, Universidad de Los Andes

Celeny Cerdona, Directora, Servicio Nacional de Empleo, Ministerio de Trabajo

Rev. Alexander Dalpiaz, Director, Departmento de Migración, Episcopado Colombiano

Alcides Estrada, Director Ejecutivo, Corporación Centro Regional de Población

Laureano Ladron de Guevara, Profesor, Escuela Superior de Administración Pública

Francisco Leal Buitran, Profesor, Universidad de Los Andes

Coronel Julio Londoño, Secretario General de la Cancillería, Ministerio de Relaciones Exteriores

Guillermo López Escobar, Presidente, Corporación Centro Regional de Población

Pilar Moreno de Angel, Directora, Archivo Nacional de Colombia

Gabriel Murillo, Director, Dept. Ciencia Política, Universidad de Los Andes

Efrain Pacho, reportero, La República

Jaime Posada, Presidente, Universidad de América

Camilo Reyes Rodríguez, 2do Secretario, División de Fronteras, Ministerio de Relaciones Exteriores

PP Romero, Director Colombia Press & Revista Periodismo

Monseñor Rubiano, Obispo de Cucutá

Haiti

James Allman, Resident Advisor, Ministry of Health

Jamaica

Patricia Anderson, Department of Sociology, University of the West Indies

Wilma Bailey, Department of Geography, University of the West Indies

Derek Gordon, Department of Sociology, University of the West Indies

Daphne Graham, Townhouse Interiors

Eddie Green, Director, Institute for Social and Economic Research, University of the West Indies

Patrick Healy, Jamaica Regional Office, Organization of American States

Lloyd Hunter, Insurance College of Jamaica

Elsie LeFranc, Institute for Social and Economic Research, University of the West Indies

Cedric McCulloch, Permanent Secretary, Ministry of Youth and Community Development

Brenda G. McSweeney, Resident Representative, United Nations Development Program

Lorna Murray, Assistant Director, National Planning Agency, Macro-Manpower and Population Division

Rex Nettleford, Director of Studies, Trade Union Education Institute, Dept. of Extra-Mural Studies, University of the West Indies

Dorian Powell, Chair, Dept. of Sociology/Anthropology, University of the West Indies

Elizabeth Thomas-Hope, Institute of Social Economic Reasearch

Danny Williams, former Minister of Industry and Commerce

Mexico

Jorge Arieh, Investigador-Columnista

Manuel García y Griego, Programa de Estudios México-Estados Unidos, Centro de Estudios Internacionales, El Colegio de México

Roberto Ham, Director, Centro de Estudios Demográficos y de Desarrollo Urbano

Julio Labastida Martín del Campo, Director, Instituto de
    Investigaciones Sociales, Universidan Autónoma de México

Geromino Martínez, Director, Centro de Información y Estadística de
    Trabajo, Secretaría del Trabajo

Omar Martínez Le Gorreta, Secretario Ejecutivo, El Colegio de México

Orlandina de Oliveira, Profesora, Investigadora en Población,
    El Colegio de México

Luís Pablos, Subdirección de Generacion de Información, Centro de
    Información y Estadística de Trabajo

José Luís Reyna, Director Facultad Latinoamericana de
    Ciencias Sociales, México

Crescencio Ruíz Chiapetto, Investigador, Centro de Estudios
    Demográficos y de Desarrollo Urbano

Claudio Stern, Director, Programa de Investigaciones Sociales Sobre
    Población en América Latina

Carlos Velasco M., Reportero, Excelsior

Carlos H. Zazueta, Unidad de Estudios Especiales, Centro de
    Información y Estadística de Trabajo

Panama

Carmen Miró, Directora, Centro de Estudios Latinoamericanos Justo
    Arosemena

Dominican Republic

José del Castillo, Museo del Hombre Dominicano

Isis Duarte, Centro de Estudios de la Realidad
    Social Dominicana (CERESD), Facultad de Economía, Universidad
    Autónoma de Santo Domingo

Luís Gómez, Centro de Estudios de la Realidad Social Dominicana,
    Facultad de Economía, Universidad Autónoma de Santo Domingo

Wilfredo Lozano, Centro de Estudios de la Realidad Social
    Dominicana, Facultad de Economía, Universidad Autónoma de Santo
    Domingo

Martin Murphy, Anthropologist, Museo del Hombre Dominicano

Carlos Patiño, Dirección General de Empleo y Recursos Humanos,
    Secretaría de Estado de Trabajo

Magaly Pineda, Directora, Centro de Investigación para la Acción Femenin

Julio Rivas Cerrara, Dirección General de Empleo y Recursos
    Humanos, Secretaría de Estado de Trabajo

Julio Sanz, Redactor "Migración", Centro de Investigación y
    Promoción Social

María Luisa Váldez, Anthropologist, Museo del Hombre Dominicano

Trinidad

Bascia Beckles, CELADE, Institute of Social and Economic Research, University of the West Indies

Anthony T. Bryan, Director, Institute of International Relations, University of the West Indies

Patrick I. Gomes, Department of Agricutural Extension, University of the West Indies

Celia Karch, Dept. of Sociology, University of the West Indies

Curtis McIntosh, Director, Caribbean Food and Nutrition Institute, University of the West Indies

Rosina Wiltshire-Brodber and Winston Wiltshire, Institute of International Relations, University of the West Indies

United States

Linda Basch, UNITAR, New York

Susan Huelsebusch Buchanan, Office of Refugee Resettlèment, Region III, New York City

Mary Kritz, Assistant Director, Division of Population Science, Rockefeller Foundation

Patricia Pessar, Center for Caribbean and Latin American Studies, New York University

Constance Sutton, Professor, Department of Anthropology, New York University

LETTERS OF SUPPORT

BRAZIL

Eduardo Albertal, General Coordinator
Programa de Estudios Conjuntos sobre Integracion Economica Latinoamericana

CHILE

José Joaquín Brunner, Director
Facultad Latinoamericana de Ciencias Sociales

Patricio Cariola, S.J., Director
Centro de Investigación y Desarrollo de la Educación

Antonio Daher H., Jéfe de Programa Magister
Instituto de Planificación del Desarrollo Urbano de la Universidad Católica de Chile

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J. William Middendorf II, Ambassador
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CONCLUDING REMARKS

Senator D'Amato. Well, Father, I thank you. I do not know whether Father Bradley would like to add any testimony. But we are deeply committed to this program. Senator Kasten, as you know, and Senator Inouye are very strong supporters of this program. We had better begin to utilize all of our resources in planning to deal with the refugee problems that we have today.

I have a feeling if events in certain areas of the world not too remote from the United States take a turn for the worse, we may find ourselves with a serious refugee problem.

So we certainly thank you. And I want you to know I think you will continue to get great support for your worthwhile endeavors.

Reverend George. Thank you.

Senator D'Amato. Thank you very much.

Friends Committee on National Legislation

STATEMENT OF FRANCES E. NEELY, LEGISLATIVE SECRETARY, FRIENDS COMMITTEE ON NATIONAL LEGISLATION

REQUESTS FOR ISRAEL AND LEBANON

Senator D'Amato. Frances Neely, legislative secretary of the Friends Committee on National Legislation.

Ms. Neely. Good morning, Senator. We appreciate the opportunity to appear before this subcommittee because your actions affect the welfare of children and the future of international peacekeeping and peacemaking.

I will focus this morning on requests for Lebanon and Israel. We support any components of the proposals before you that will help the children of Lebanon and of the occupied territories regain or maintain their physical and emotional health.

OPPOSITION TO MILITARY ASSISTANCE FOR ISRAEL AND LEBANON

We oppose all military assistance to either Israel or Lebanon as a threat to the well-being of children. The Israeli sweep through southern Lebanon and its 9-week seige of Beirut uprooted and terrorized thousands of children. The dead can be counted, but the psychological damage to survivors is harder to measure and difficult to heal.

The invasion brought with it the breakup of families and the disruption of services and of other institutions that help children grow. Last summer many Palestinian mothers were so traumatized by the loss or disappearance of their husbands and older sons that they were unable to care adequately for the health of their families.

The families of prisoners of war continue to suffer emotional and economic deprivation. Over 5,000 Palestinian and Lebanese males are still imprisoned at the Israeli Ansar camp. These prisoners are held without charges and family visits are prohibited. Life is also Precarious for wives and children left behind when the Palestinian fighters were forced to leave Beirut. According to UNICEF, family rehabilitation is essential if Lebanon is to avoid development of a "handicapped generation."

The Israelis are still holding many skilled Palestinians who would normally be assisting in the training or development of the young. These include social workers, teachers, and medical practitioners.

The Palestinian medical system including clinics and hospitals, has been almost destroyed by Israeli gunfire and imprisonment or harassment of personnel. Nearly 70 Palestinian employees of UNRWA remain in Israeli hands. Most of these detainees are teachers. In Sidon, Palestinian schools operate on triple shifts and classes are held in large tents.

A new campaign of terror is developing in southern Lebanon and fears of additional massacres run deep. The terrorists seem to be from various "Christian"—and I put quotation marks around the word "Christian"—factions. Their hatred is directed against Shi'ite Muslims as well as Palestinians. People have been injured, mutilated, and killed, and families intimidated into leaving their homes.

This climate of hostility has been fed by the Israeli Government's decision to arm various Lebanese factions regardless of consequences for the civilian population.

The Israeli commission appointed to assess responsibility for the Sabra and Shatila massacres reported that "everyone who had anything to do with events in Lebanon should have felt apprehension about a massacre in the camps if armed Phalangist forces were to be moved into them without the IDF exercising concrete and effective supervision * * *"

All those concerned were well aware that "* * * combatants in Lebanon belittle the value of human life far beyond what is necessary and accepted in wars between civilized peoples and that various atrocities against the noncombatant population had been widespread since 1975."

Yet, despite this assessment, the Israelis armed, and continue to arm, the Phalange, although the Phalange charges that Israel is also helping their enemy, the Druze. After failing to co-opt the Shi'ites in southern Lebanon, Israel has tried to divide them into uncoordinated village militias linked with Haddad, another discredited competitor for power in Lebanon. Israel also trains and supports the Haddad militia.

[The statement of Ms. Neely follows:]

PREPARED STATEMENT OF FRANCES E. NEELY

LEGISLATIVE SECRETARY

FRIENDS COMMITTEE ON NATIONAL LEGISLATION

I am Frances Neely, Legislative Secretary, Friends Committee on National Legislation. We appreciate the opportunity to appear before you because your actions affect two of our major concerns: the well-being of millions of children and the effectiveness of multinational peacekeeping and peacemaking. These issues are important to all Friends, although, as you know, FCNL does not attempt to speak for every member of the Society of Friends.

Historically, the Friends Committee has supported U.S. development programs that benefit the poorer inhabitants of the poorer nations. We have endorsed U.S. contributions to multilateral programs, such as the UNDP, UNICEF, IDA and the soft loan windows of the international banks. We have opposed grants and sales of U.S. arms to any nation, as well as construction of bases or stationing of U.S. armed personnel on foreign soil.

We have recommended that the Economic Support Fund be eliminated and ESF projects that meet criteria for economic development activities be transferred to the appropriate categories of agriculture and rural development, population and health, education and human resources, etc. We have suggested that countries needing budgetary support be referred to the International Monetary Fund.

I bring you that same message today, but I will concentrate on foreign aid requests for Israel and Lebanon, because U.S. aid to those nations affects so immediately the lives and psychological health of children, as well as the effectiveness of multinational peacekeeping and peacemaking institutions.

EFFECT ON CHILDREN

We support any components of the proposals before you that will help the children of Lebanon and the occupied territories regain or maintain their physical or emotional health. We oppose all military assistance to either Israel or Lebanon as a threat to the well-being of children.

i. In Lebanon

U.S. military aid to Israel has had a devastating effect on the children of Lebanon. Children under 15 constitute about 39% of the population. Last June, the UNICEF director in Beirut estimated that there were nearly 460,000 children in West Beirut and the suburbs alone. The Israeli sweep through southern Lebanon and its 9-week seige of Beirut uprooted and terrorized thousands of children. The dead can be counted, but the psychological damage to survivors is harder to measure and difficult to heal.

The invasion brought with it the break-up of families and the disruption of services and other institutions that help children grow.

The break-up of families. Last summer UNRWA appealed to Palestinian mothers to be more sensitive to signs of illness among their younger children. According to Agency staff, many mothers were so traumatized by the invasion and the loss or disappearance of husbands and older sons that they were unable to care adequately for the health of their families.

Over 5,000 Palestinian and Lebanese males are still imprisoned at the Israeli Ansar camp. These prisoners are being held without charges. Releases are approved sporadically, and rumors of prisoner exchanges remain just that —

rumors. Family visits are prohibited. Messages may be exchanged, but some prisoners hesitate to use this channel for fear of drawing attention to the location of their families. The families themselves suffer emotional and economic deprivation from the loss of husbands, fathers and breadwinners.*

Life is also precarious for the wives and children left behind when the Palestinian fighters were forced to leave Beirut for other lands. Some of the dependents of the deportees may have died at Sabra and Shatila.

The breakdown of institutions. The Israelis are still holding many highly-skilled Palestinians who would normally be assisting in the training or development of the young. These include social workers, teachers and medical practitioners. The Palestinian medical system, including clinics and hospitals, has been almost destroyed by Israeli gunfire and imprisonment or harassment of personnel. According to one U.S. official, it will be almost impossible to restore the level of care provided by the Palestine Red Crescent and UNRWA.

Nearly 70 Palestinian employees of UNRWA remain in Israeli hands. Most of these detainees are teachers. Almost all of UNRWA's schools have reopened, but schooling is circumscribed. In Sidon, Palestinian schools operate on triple shifts, and classes are held in large tents.

The on-going terror. A new campaign of terror seems to be developing in southern Lebanon, and fears of additional massacres run deep. The terrorists seem to be from various "Christian" factions, and their hatred is directed against Shiite Muslims as well as Palestinians. People have been injured, mutilated and killed, and families intimidated into leaving their homes. The potential for intimidation in the Sidon area is enormous, according to UNRWA officials. The Secretary General of the United Nations has expressed deep concern and is studying possible UN action. The Commissioner General of UNRWA and the ICRC have demanded that Israel, as the occupying power, fulfill its responsibility to ensure the safety of the civilian population.

The ICRC reported, on February 24, that:

> During the past two weeks, the fate of the Palestinian population in southern Lebanon became a matter of deep concern. ICRC's delegation in Lebanon directed most of its energies to this problem and also immediately strengthened its representations to remind the occupying power of its obligations under international law, i.e. the fourth Geneva Convention and the Hague Convention of 1907.

(see attachments)

The climate of hostility has been fed by the Israeli Government's decision to arm various Lebanese factions, regardless of consequences for the civilian population. The Israeli Commission appointed to assess responsibility for the Sabra and Shatila massacres reported that:

> In our view, everyone who had anything to do with events in Lebanon should have felt apprehension about a massacre in the camps if armed Phalangist forces were to be moved into them without the IDF exercising concrete and effective supervision and scrutiny of them . . . all those concerned [Israelis] were well aware that combat morality among the various combatant groups in Lebanon differs from the norm in the IDF, that the combatants in Lebanon belittle value of human life far beyond what is necessary and accepted in wars between civilized peoples, and that various atrocities against the noncombatant population had been widespread in Lebanon since 1975."

Yet despite this assessment, the Israelis armed the Phalange, maintained "constant contact" with Phalangists, chose them to comb the refugee camps for "terrorists", because the Israeli military could give the Phalangists "orders whereas it was impossible to give the Lebanese army orders" (New York Times, 2/9/83). Israel continues to supply the Phalange with arms, although the Phalange charges that Israel is also helping their enemy, the Druse (New York Times, 2/16/83). After failing to co-opt the Shiites in southern Lebanon, Israel has tried to divide them into uncoordinated village militias linked with Haddad, another discredited competitor for power in Lebanon. Israel also trains and supports the Haddad militia.

All of these actions have incredible ramifications for the well-being of children. Of course, Israel is not the only outside power operating in Lebanon and supplying Lebanese factions to a degree that hurts the young. I have concentrated on Israeli actions because, over the years, the United States has provided Israel with billions of dollars in military and financial aid. It would be only natural for Israelis to assume that we wouldn't provide them with that much of our substance unless we approve of what they do. Since you have oversight of the level and distribution of U.S. aid funds, you have a tremendous responsibility to set standards as to what is and is not acceptable conduct by aid recipients.

Last year, the Israelis, like the Phalangists at Sabra and Shatila, might well have believed that their mentor, in this case the United States, had given them carte blanche to move into Lebanon and clear out the "terrorists", regardless of consequences to women and children. If you continue military aid to Israel, you will reaffirm that belief.

If you continue military aid to Israel, you will also be acquiescing in the arming and/or rearming of factions within Lebanon. If these factions share with Sharon a "lack of moral brakes" as one Israeli has suggested, it may be because other nations -- Israel, Syria and Libya -- have plied the Lebanese with weapons and used them as proxies to attain foreign goals. The United States, as weapons supplier to the Israeli player, shares blame for the moral degradation involved. We urge you to assert your strong objection to such practices by ending military aid to Israel.

ii. In the Occupied Territories of the West Bank and Gaza

The impact of this occupation also rests heavily on children, their schooling, their freedom of movement, their freedom of speech and, in some instances, their right to survive. It is only in the past few months that we Americans have become aware of the techniques employed in the West Bank during last spring's disturbances -- techniques that were set forth in two documents issued by Israeli Chief of Staff Eitan. General Eitan, as you will recall, was charged in the Sabra-Shatila report with a breach of duty for neither forseeing nor attempting to halt the "slaughter" in the camps. Israeli policy in the occupied territories, according to Eitan, should include punishment of parents of students who participate in demonstrations, expulsion from the territories, economic punishment of whole villages, etc. (see attachments) Here, too, the United States, through its military and financial aid may have led the Israeli Government to believe that we don't care how Israel treats the people over whom it holds the power of life and death.

iii. U.S. Military Aid to Lebanon

We oppose the $101 million supplemental request to help expand and equip the military forces of the Lebanese Government. Although the goal is admirable -- to stabilize Lebanese society -- the danger of triggering additional violence is too great. Stability might be achieved more quickly and with less pain by turning all of Lebanon into a demilitarized zone.

We urge you and the Executive Branch to join together in asking the UN to expand its peacekeeping forces in Lebanon, to assign them to stations throughout the country and to supplement their policing capability with the addition of special mediation and conciliation teams. The UN peacekeeping forces could oversee the disarming of all militia, including the Phalange, and the conciliation teams could help the Lebanese and Palestinian people move away from horror and back to community.

The Lebanese Government has already requested that UNIFIL be deployed throughout Lebanon as soon as all non-Lebanese forces are withdrawn. The Lebanese want UNIFIL to confirm the withdrawal of all foreign forces, restore international peace and assist the Lebanese army in extending governmental authority throughout Lebanon.

If Lebanon were to become a demilitarized zone, UNIFIL could do all the things the Lebanese Government suggests to guarantee Lebanon's external security, but it would work with the Lebanese police instead of an army to bring about internal peace.

EFFECT OF U.S. AID TO ISRAEL ON UN PEACEMAKING AND PEACEKEEPING

Continuation of U.S. military aid to Israel, despite Israel's unwillingness to settle disputes by peaceful means, has undercut the effectiveness and curtailed the growth of international peacekeeping and peacemaking. The lack of U.S. response to Israel's contemptuous treatment of UN peacekeeping forces gives the impression that the U.S. acquiesces in Israel's refusal to accept UN decisions. Even when the U.S. has endorsed UN efforts to control Israel's actions, we have made a mockery of that endorsement by sending Israel arms and equipment to carry out illegal acts. (Resolutions attached)

This is particularly unfortunate since the U.S., as a founding member of the UN and a permanent member of the UN Security Council, has a special responsibility to help that agency "maintain international peace and security."

Furthermore, the sending of U.S. military contingents into the Middle East, largely because Israel refused to accept UN involvement on the Israeli-Egyptian border or in Beirut, sets a precedent for by-passing the UN in future peacekeeping operations. If and when there is a foreign forces withdrawal agreement, Congress may be faced with an Administration request to send more troops into Lebanon. We hope you will reject that request. Please ask the Administration to return peacekeeping responsibility to the world community, where peacekeeping procedures may be nurtured and improved.

In the long run, no country, including Israel, will benefit from destroying the fragile international institutions that are trying to promote and monitor the peaceful settlement of disputes. In the long run, all nations will need such institutions to help bring about a civilized re ponse to political problems. We urge you to reaffirm the U.S. commitment to such institutions and supplement that affirmation by discontinuing military aid to Israel.

Some Excerpts from the Record

When Israel was forced to withdraw from Lebanon after its 1978 invasion, it circumvented UN goals by turning the southern border area over to an Israeli ally, former Lebanese Army Major Haddad, and his militia, whom the Israelis trained and armed. The Haddad presence made it impossible for the UN Interim Force in Lebanon (UNIFIL) to fulfill its 1978 mandate, i.e. to confirm withdrawal of Israeli forces and to establish a demilitarized zone in southern Lebanon. Haddad's presence also facilitated the breaching of UN peacekeeping areas last June.

Last June, General Eitan, Chief of Staff of the the Israel Defence Forces, gave the UNIFIL commander 28 minutes notice of Israel's second invasion of Lebanon.

> He indicated that there was need for the IDF to pass through or near UNIFIL positions, and he expected that UNIFIL would raise no physical difficulty to the advancing troops. General Callaghan objected to . . . and protested against this totally unacceptable course of action . . . [When] UNIFIL troops attempted to prevent the entry and advance of Israeli forces . . . tank barrels were pointed at UNIFIL soldiers . . . obstacles [placed in the way of the Israeli advance] were forcibly removed and bulldozed. At Khardala Bridge, a small Nepalese position

> stood its ground for two days, despite harassment and threats. . . their positions was partially destroyed . . .
>
> I regret having to report that a Norwegian soldier was killed by shrapnel on 6 June. Further, the IDF has taken prisoner 62 Lebanese army soldiers who were serving under the operational command of UNIFIL. This was protested to the IDF with the demand that they be returned to UNIFIL. Despite this, the IDF has handed over the prisoners to the de facto forces [Christian and associated militias], an action that has been most vigorously protested. -- Secretary General's Report, June 11, 1982

UNIFIL headquarters was cut off from all UNIFIL battalions and supply routes closed. UNIFIL responded by holding to its positions. UNIFIL staff attempted to assist persons evacuated from Tyre with food, water and medical supplies, according to the Secretary General's report of June 8, 1982.

> In the days immediately following the Israeli invasion . . . there were instances in which Israeli military personnel forced entry into UNIFIL installations, destroyed UNIFIL checkpoints, fired close to UNIFIL positions or blocked roads in the UNIFIL area of deployment . . . At the end of June, a new armed group, equipped and controlled by the Israeli forces appeared in parts of the UNIFIL area. These armed persons, recruited from the local population and variously referred to by the Israeli forces as "national guard" or "civil guard" attempted to establish checkpoints and patrol the villages. In some locations the ill-disciplined behaviour of these irregulars, who are not recognized by the Lebanese Government, led to friction with the other inhabitants. With a view to protecting the civilian population, UNIFIL has taken action to contain the activities of these armed persons.
> -- Secretary General's Report, August 13, 1982
>
> On 23 November 1982, an Israeli unit forced its way into the Senegalese battalion headquarters and briefly questioned Lebanese army personnel stationed there. The following day, a similar attempt was foiled at the Irish battalion headquarters. On 16 December 1982, Israeli soldiers fired approximately 20 rounds and two illumination flares towards two Nigerian positions. On 20 December, Israeli personnel on two separate occasions fired over the heads of two members of the UNIFIL military police who were on convoy duty . . .
>
> During the period under review, IDF continued the recruitment and arming of selected villagers in the UNIFIL area . . . UNIFIL has made strong representations to the Israeli authorities about the arming of such groups and the risk of incidents arising from their irresponsible behaviour. -- Secretary General's Report, January 1, 1983

ADDENDUM

You may, of course, wish to consider more mundane issues as you examine the Administration's request for aid to Israel. If the Israelis are able to finance the war on Lebanon without outside assistance, as the Israeli Government has said, then why should American taxpayers continue to subsidize Israel's ongoing military establishment?

Since the Israeli social consciousness forces that government to subsidize basic living costs and to worry about an unemployment rate of about 5% (1981), you may find it useful to weigh the needs of America's poor against the proposed subsidy to Israel. We would applaud a decision to transfer Israel-designated-dollars to programs to meet the needs of Americans standing in bread and unemployment lines.

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* "As of the end of 1982, the Israeli government had not made public a full or partial list of names of the detainees, had not permitted relatives access to the detainees, and, while granting the Red Cross access to most of the prisoners, apparently maintained some of them incommunicado and unaccounted for. Because of the lack of charges, access, or, in some cases, information as to whether or where specific persons are being detained, legal recourse for the detainees was extremely limited; however, various cases were filed in the Israeli judicial system on behalf of some of the prisoners, demanding that the Government set forth the legal basis for holding them. As of the end of 1982, no decisions had been announced in those cases. At year end, the number of prisoners captured in Lebanon and still held by Israel, aside from about 300 Syrian POWs, was probably in the neighborhood of 5,400, with approximately 5,300 held in Ansar prison camp." -- Country Reports on Human Rights, Department of State, February 1983.

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PRIMO - INTRODUCTION

ALPHA
DURING THE PAST TWO WEEKS, THE FATE OF THE PALESTINIAN POPULATION IN SOUTHERN LEBANON BECAME A MATTER OF DEEP CONCERN. ICRC'S DELEGATION IN LEBANON DIRECTED MOST OF ITS ENERGIES TO THIS PROBLEM AND ALSO IMMEDIATELY STRENGHTENED ITS REPRESENTATIONS TO REMIND THE OCCUPYING POWER OF ITS OBLIGATIONS UNDER INTERNATIONAL LAW I.E. THE FOURTH GENEVA CONVENTION AND THE HAGUE CONVENTION OF 1907.

BRAVO
TO ENSURE THE PROPER PROTECTION OF THE CIVIL POPULATIONS UNDER ISRAELI CONTROL, ICRC DELEGATION IN BOTH BEIRUT AND IN TEL AVIV BASED THEIR RENEWED REPRESENTATIONS ON ARTICLE 27 OF THE FOURTH GENEVA CONVENTION (PROTECTION OF CIVILIANS IN OCCUPIED TERRITORIES), WHICH STIPULATES THAT ''PROTECTED PERSONS ARE ENTITLED, IN ALL CIRCUMSTANCES, TO RESPECT FOR THEIR PERSONS, THEIR HONOUR, THEIR FAMILY RIGHTS, THEIR RELIGIOUS CONVICTIONS AND PRACTICES, AND THEIR MANNERS AND CUSTOMS. THEY SHALL AT ALL TIMES BE HUMANELY TREATED, AND SHALL BE PROTECTED ESPECIALLY AGAINST ALL ACTS OF VIOLENCE OR THREATS THEREOF AND AGAINST INSULTS AND PUBLIC CURIOSITY''

AND ON ARTICLE 43 OF THE REGULATIONS ATTACHED TO THE HAGUE CONVENTION WHICH STATES THAT ''THE AUTHORITY OF THE LEGITIMATE POWER HAVING IN FACT PASSED INTO THE HANDS OF THE OCCUPANT, THE LATTER SHALL TAKE ALL MEASURES IN HIS POWER TO RESTORE, AND ENSURE, AS FAR AS POSSIBLE, PUBLIC ORDER AND SAFETY, WHILE RESPECTING UNLESS ABSOLUTELY PREVENTED, THE LAWS IN FORCE IN THE COUNTRY''.

SECUNDO - PROTECTION

ALPHA - INSAR

5,240 PRISONERS ARE STILL BEING DETAINED BY THE ISRAELI AUTHORITIES IN INSAR CAMP. SINCE THE BEGINNING OF FEBRUARY, 18 PERSONS OF FOREIGN ORIGIN HAVE BEEN RELEASED AND TRANSFERRED FROM INSAR TO BEIRUT UNDER ICRC AUSPICES. THEY WERE THEN HANDED OVER TO DIPLOMATIC REPRESENTATIVES OF HOST-COUNTRIES. ICRC DELEGATES CONTINUE THEIR DAILY VISITS IN ORDER TO AFFORD PROTECTION AND ASSISTANCE TO PRISONERS.

BRAVO - SAIDA

THE SECURITY OF PALESTINIAN REFUGEES PROVED TO BE PARTICULARLY WORRYING AROUND SAIDA, WHERE MANY FAMILIES WERE FORCED TO ABANDON THEIR HOMES. SOME OF THEM SEARCHED FOR SHELTER IN EIN EL HELWE CAMP. ICRC DELEGATES CONTINUE TO CARRY OUT REGULAR VISITS TO PALESTINIAN CAMPS BOTH IN SAIDA AND IN TYRE.

CHARLIE - BEIRUT

ICRC DELEGATES PURSUED THEIR EFFORTS TO GAIN ACCESS TO PERSONS ARRESTED AND DETAINED BY THE LEBANESE AUTHORITIES.

DELTA - PLO

SINCE 29 DEC, ICRC DELEGATES HAVE NOT BEEN PERMITTED TO VISIT THE 6 ISRAELI POWS DETAINED BY THE PLO.

ECHO - ISRAEL

ON 3 FEB, ICRC DELEGATES VISITED 11 FEMALE PRISONERS ARRESTED IN LEBANON AND HELD IN ISRAEL. 8 OF THEM HAD BEEN SEEN ON PREVIOUS OCCASIONS.

FOXTROT - SYRIA

ON 11 FEB, DELEGATES VISITED 3 ISRAELI POWS IN SYRIAN HANDS ACCORDING TO ICRC STANDARD CRITERIA.

TERTIO - TRACING

DURING THE FIRST THREE WEEKS OF FEBRUARY, A TOTAL OF 64,338 FAMILY MESSAGES WERE EXCHANGED WITHIN LEBANON AND ABROAD AND 63 NEW TRACING REQUESTS REGISTERED.

QUARTO - MEDICAL

ALPHA - BEIRUT
THE ICRC MEDICAL CO-ORDINATOR CARRIED OUT A NUMBER OF SURVEYS IN THE SOUTHERN OUTSKIRTS OF BEIRUT, THE CHOUF, ALEY AND BAALBECK. THE PURPOSE OF THIS MISSION WAS TO REEVALUATE THE NEEDS IN HOSPITALS AND DISPENSARIES.
SIX DISPENSARIES WERE EACH PROVIDED WITH 1 DRESSING MATERIAL UNIT, 1 PAEDIATRIC UNIT AND 1 DISPENSARY UNIT. DURING THE REPORTING PERIOD, THE DELEGATION IN BEIRUT RECEIVED A TOTAL OF 712 KG OF DRESSING MATERIAL. 200 WHEELCHAIRS ARRIVED BY SEA IN BEIRUT FOR DISTRIBUTION THROUGH THE LRCS ACCORDING TO NEEDS. BOTH THE DRESSING MATERIAL AND THE WHEELCHAIRS WERE PURCHASED BY THE ICRC.

BRAVO - TRIPOLI
IN TRIPOLI, ALL THE DISPENSARIES WERE SURVEYED BY ICRC MEDICAL PERSONNEL AND BASIC MEDICAL MATERIAL SUCH AS PAEDIATRIC AND DISPENSARY UNITS WAS DISTRIBUTED WHERE NEEDED.

CHARLIE - SAIDA
ON 14 FEB, THE ICRC ORTHOPAEDIC CENTRE LOCATED AT THE MUSLIM ORPHANAGE IN SAIDA OPENED ITS DOORS. SO FAR, A TOTAL OF 60 AMPUTEES HAVE APPLIED TO BE FITTED WITH ARTIFICIAL LIMBS. ICRC STANDARD MEDICAL KITS WERE ALSO DISTRIBUTED IN THE VILLAGES OF HASBAYA, CHEBAA, RACHAYA AND SEMKANYE.

DELTA - BEKAA VALLEY
IN BAALBECK, THE MEDICAL TEAM PROVIDED BY THE NORDIC NATIONAL RED CROSS SOCIETIES CONTINUED TO CARRY OUT ITS SURGICAL WORK. IN ADDITION TO ITS CARE OF THE WOUNDED, IT HAS UNDERTAKEN A NUMBER OF CONSULTATIONS AT THE GOVERNMENT HOSPITALS OF HERMEL AND BAALBECK.

QUINTO - RELIEF

ALPHA
DISTRIBUTIONS HAVE BEEN MADE TO ABOUT 600 FAMILIES IN NEED

SINCE 30 JAN. DURING THIS PERIOD 5,925 BLANKETS, 614 FAMILY FOOD PARCELS AND 18 TONS OF OTHER MATERIAL (MILKPOWDER, OIL, SOAP) WERE DISTRIBUTED.

BRAVO
BY 18 FEB 83, THE TOTAL DISTRIBUTIONS AMOUNTED TO 7,787 TONS (OUT OF 9,423 TONS RECEIVED DURING WHOLE LEBANON OPERATION). THE BREAK-DOWN, ACCORDING TO GEOGRAPHICAL REGIONS IS AS FOLLOWS :

	TONS
BEIRUT	3,742.6
SOUTH LEBANON (SAIDA, TYRE)	2,156.7
NORTH LEBANON (TRIPOLI)	770
BEKAA (BAALBECK,KSARA)	1,116.7

OP/LSNG

United Nations
Press Release

Department of Public Information
Press Section
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PAL/1513
9 February 1983

UNRWA COMMISSIONER-GENERAL EXPRESSES DEEP CONCERN AT SECURITY SITUATION IN REFUGEE CAMPS

VIENNA, 9 February (UNRWA) -- The Commissioner-General of the United Nations Relief and Works Agency for Palestine Refugees in the Near East (UNRWA), Olof Rydbeck, today expressed deep concern at the deteriorating security situation of Palestinian refugees in Lebanon.

An explosion at the Mia Mia refugee camp (population 2,500) near Sidon, Lebanon, during the night injured three people and damaged 14 houses, two seriously.

"This is the third incident at the camp in less than two weeks", Mr. Rydbeck said at his headquarters in Vienna. "On 31 January a shop in the camp was blown up, and on 1 February a group of men arrived in taxis and stoned some houses."

"UNRWA is in touch with the Israeli forces on the spot in an attempt to put an end to these attacks, which are terrorizing innocent refugees, including children. It is Israel's responsibility to ensure the safety of the civilian population in the areas which it controls".

In other recent incidents, some 40 Palestinian refugee families have been intimidated into leaving their homes in Sidon and taking refuge in the nearby Ein El-Hilweh camp. Twelve of the families have been given tents in the past week. They said threats were made to them by armed men wearing masks, or by notes pinned to their doors. In one case a bomb exploded against a refugee's front door.

On 7 February a group of at least 18 Palestinian refugee families and three Lebanese families squatting on land near Ein El-Hilweh received notice of eviction. The Mayor of Sidon had said that he will not carry out the evictions without first informing UNRWA. The Israeli forces have been notified and reminded of their promoise not to allow evictions.

BODIES OF PALESTINE REFUGEES FOUND

VIENNA, 11 February (UNRWA) -- Fifteen bodies, many of them Palestine refugees, have been found near the Ein el Hilweh refugee camp at Sidon, Lebanon, in the past two weeks.

Yesterday (10 February) three bodies were delivered to the government hospital in Sidon, one of them the multilated body of a 17-year-old resident of the Ein el Hilweh camp. The other two bodies were burned. One was later identified as that of a male over 40 years of age from the Burj el Shemali camp at Tyre.

Warned to Leave

On 9 Feburary, 10 refugee families living in Abbdousieh, a village near Sidon, were warned to leave within 24 hours and go to Ein el Hilweh or Rashidieh camps. The warning apparently came from Christian militia forces. Thirteen families from Sidon who had received similar warnings have been given tents by the United Nations Relief and Works Agency for Palestine Refugees in the Near East (UNRWA) and have arranged to share plots of land with other families in Ein el Hilweh.

The potential for further intimidation of refugees in the Sidon area is enormous, UNRWA officials said today. About 50,000 refugees are receiving emergency help from the Agency there. Only 15,000 are living in Ein el Hilweh and about 1,200 in the Mieh Mieh camp.

Responsibility for Safety

Earlier this week, after several incidents of harassment at the Mieh Mieh camp near Sidon, UNRWA Commissioner-General Olof Rydbeck expressed his deep concern at the deteriorating security situation of Palestine refugees in Lebanon. Since Israel controls the area, said Mr. Rydbeck, it is its responsibility "to ensure the safety of the civilian population".

PAL/1515
22 February 1983

UNRWA REPORTS INCREASED HARASSMENT OF PALESTINE REFUGEES IN SOUTHERN LEBANON

VIENNA, 19 February (UNRWA) -- United Nations officials in Lebanon today reported an increase in the campaign of terror against Palestinian refugees in the south of the country.

The United Nations Relief and Works Agency for Palestine Refugees in the Near East (UNRWA), which runs schools, health centres and relief services for Palestinian refugees in the Middle East, said leaflets distributed during the past week in Adloun, Sarafand and other villages in the Zahrani district south of Sidon called on Palestinians to "go to the camps, and whoever does not do so within 24 hours will bear full responsibility for his actions".

The leaflets, signed by a group calling itself "Lebanese Unity", end with the Arabic proverb "he who forewarns is exonerated". The leaflets were put into plastic bags weighted with stones and hung on the front doors of Palestinian homes.

On the night of 14 February, a grenade destroyed the car of a refugee living in the Qaya's suburb of Sidon. The next day, armed men told him to leave within 24 hours. On 16 February, he left his home which he owned.

Five families living in Sabra village, near Sidon, including an UNRWA teacher, were warned to leave on 16 February.

An UNRWA official reported that the road between Sidon and Tyre to the south was blocked by burning car tires Friday morning. The fire was started by armed men. Israeli forces turned cars back.

The atmosphere of terror has been heightened by an unconfirmed report that a Lebanese opponent of the attacks on Palestinians was kidnapped late on Thursday night. When his father and wife tried to intervene, the father was shot dead, according to this report.

Armed men entered Ein el-Hilweh camp at midday on Thursday and took a refugee shopkeeper away for questioning. He was returned that night.

According to press reports, a local member of the Lebanese Parliament called a meeting of influential people in Sidon for Sunday night to discuss the protection of civilians there.

UNRWA staff were continuing urgent contacts with local Israeli commanders.

UNRWA Commissioner-General, Olof Rydbeck, is flying from his Vienna headquarters to New York on Wednesday to discuss the security situation in Lebanon and other matters with United Nations Secretary-General Javier Perez de Cuellar.

from THE NEW YORK TIMES, February 13, 1983

15 BODIES FOUND IN SOUTH LEBANON

U.N. Asserts Many Have Been Identified as Palestinians

Death Threats Noted

BEIRUT, Lebanon, Feb. 12 (AP) — Fifteen bodies have been found near a Palestinian refugee camp in an area of southern Lebanon where death threats are being directed against Palestinians, the United Nations Relief and Works Agency said today.

The agency, which works with Palestinian refugees, said the bodies were found over the last two weeks near the ruined Palestinian refugee camp of Ein Khilwe, at the edge of the port city of Sidon, 25 miles south of Beirut. It said many victims had been identified as Palestinians, but did not say how they had died.

Wafa, the Palestine Liberation Organization press agency, has said that the bodies were found by Lebanese villagers in a mass grave and that the victims had been imprisoned in the Israeli-run Ansar camp, where about 5,000 guerrilla suspects are being held near the southern Lebanese town of Nabatiye. The United Nations statement made no mention of a mass grave.

Phalangists Are Blamed

Spokesmen for the United Nations agency linked the purported terror campaign to rightist Christian Phalangist militiamen. The Phalangists have been blamed by an Israeli judicial commission for the Sept. 16-18 massacre of Palestinians in Beirut's Sabra and Shatila refugee camps.

Representatives of the Phalange Party and its militia were not available in their offices today for comment. But last week a Phalange Party spokesman, Salim Reaidi, denied similar accusations of anti-Palestinian intimidation, saying "this is not done by us." He did not elaborate.

Hisham Shaar, head of the Lebanese internal security police, said last week that eight Palestinian men had been abducted from their homes and murdered in the last month in the Sidon area. He said four others were abducted, shot and wounded.

According to reports received in Jerusalem this month, Christian Phalangists have begun using threats, violence and terror tactics against middle-class Palestinians in an effort to drive them from the area. About 20,000 to 25,000 Palestinians are believed to live in Sidon, outside the refugee camp. The camp itself, which was regarded as a P.L.O. stronghold, was almost completely destroyed in last summer's Israeli invasion of Lebanon.

Reports received in Israel said that the bodies of seven Palestinian men were discovered in the area and that an eighth man was found wounded.

Israeli Army Investigating

According to the reports in Israel, the incidents of terrorism, including receipt of threatening letters by families, took place in a middle-class Palestinian neighborhood in the city itself. As a result the Israeli Army is said to have stepped up patrols in Palestinian neighborhoods in Sidon and has begun an investigation.

The United Nations statement today said the "potential for further intimidation of refugees in the Sidon area is enormous" and listed as an example the forced evacuation of Palestinians from homes outside the camps. It said Christian militiamen had been warning the Palestinians to leave their villages, but did not specify which group or how the agency knew they were Christians.

A United Nations official said some of the people threatening the Palestinians had identified themselves as Christians.

from THE NEW YORK TIMES, February 14, 1983

Beirut Seeks an End to Harassment of Palestinians

Special to The New York Times

BEIRUT, Lebanon, Feb. 13 — Lebanon has asked the United States to intervene with Israel to halt a campaign of intimidation against Palestinians in southern Lebanon by Christian militiamen.

The Beirut radio quoted Prime Minister Shafik al-Wazzan as saying that he made the request at a meeting here Saturday with Philip C. Habib, the special United States envoy.

"We are exerting every effort to stop the campaign of intimidation against Palestinians and Lebanese in southern Lebanon," the Prime Minister said.

The move came after an announcement Saturday by the United Nations Relief and Works Agency that 15 bodies, most of them believed to be Palestinians, had been found in the last two weeks near the port city of Sidon, 25 miles south of Beirut. The agency did not say how the victims had died.

Shiite Moslems Also Targets

The intimidation campaign was also said to have been directed against Shiite Moslems, who form a majority in southern Lebanon.

Nabih Berri, who heads the main Shiite Moslem faction known as Amal, has asked the Government to deal with what he said were incidents of forcing Shiites to leave their homes in many villages in the area. He said in a statement published in Beirut today that several Shiites were recently killed in Zaharani, Jezzin and Reihan, where Christians also live.

Southern Lebanon, once under the control of Palestinian guerrillas and their Lebanese Moslem and leftist allies, was overrun by Israeli troops last summer. Israeli-backed Lebanese Christian militiamen arrived there on the heels of the Israelis.

The leftist Beirut daily As Safir charged today that forces of Maj. Saad Haddad were taking part in a terror campaign against Palestinians. These forces are supported and supplied by the Israelis.

According to the newspaper, a militant Christian faction, "The Guardians of the Cedars," is the main group involved in the anti-Palestinian drive.

Mr. Habib met with President Amin Gemayel of Lebanon today on the eve of resumption of talks on the withdrawal of Israeli and other foreign forces from Lebanon. Lebanese, Israeli and American representatives are due to meet Monday in the southern Beirut suburb of Khalde. It will be the 15th session since the talks began Dec. 28.

State Dept. Declines to Comment

WASHINGTON, Feb. 13 — The State Department said today that it had not yet received any report from Mr. Habib and had no comment on the purported request that the United States intervene with Israel to stop the intimidation of Palestinians in southern Lebanon by Christian militiamen.

from THE JERUSALEM POST, January 16, 1983

Ansar examiners urge release of 150

Jerusalem Post Reporter

Review committees at the Ansar detention camp in South Lebanon have recommended the release of 150 out of 1,100 PLO detainees whose cases they examined, according to a report on Kol Yisrael's weekly newsreel yesterday.

The committees were established under the Fourth Geneva Convention, which deals with the rights of protected civilians, and most of the report was devoted to the question of why the PLO prisoners are dealt with under that convention rather than under the Third Geneva Convention, which relates to prisoners of war.

Chief army attorney Tat Aluf Dov Shefi said the decision is based on legal, not political, considerations. The PLO does not meet any of the conditions laid down in the Third Geneva Convention on prisoners of war, because its fighters are not members of a regular army of a state who wear uniforms and carry their weapons openly.

Lea Tsemel, a Jerusalem lawyer who often represents PLO prisoners, said the PLO has agreed to treat Israeli prisoners as prisoners of war, and is entitled to the same consideration. She also complained that the review committees at Ansar were established only in November, one day before the High Court of Justice heard a case dealing with the detainees.

Prof. Claude Klein, an expert on international law at the Hebrew University Law Faculty, said that both legal and political conisiderations are involved in Israel's decision not to consider PLO detainees prisoners of war. Both statuses (that of prisoner of war and that of protected civilian) have their advantages and disadvantages, he said. A prisoner of war cannot be interrogated, but a protected civilian must be given the right to see his family.

As for the PLO's treatment of Israeli prisoners, Klein said that the PLO is being very clever in treating its eight Israeli prisoners well, and thus appearing to the rest of the world as "the good guys."

Shefi said the delay in establishing the review committees was purely technical, and that he did not need a court case to motivate him.

United Nations
Press Release

Department of Public Information
Press Section
United Nations, New York

REF/903
25 February 1983

GAZA REFUGEES MOVE INTO TENTS AFTER ISRAEL DEMOLISHES THEIR HOMES, UNRWA REPORTS

VIENNA, 25 February (UNRWA) -- Thirty-three Palestine refugees living in the Gaza Strip have moved into tents after three homes were demolished by the Israeli authorities. The Israeli Defence Force has told another family to demolish its home or the home will be blown up.

The Red Cross has provided tents to be erected on the sites of the destroyed homes.

Each of the families involved has a son who was detained for security reasons. Since occupying the West Bank and Gaza Strip in 1967, Israeli authorities have, on various occasions, destroyed refugee homes as a form of collective punishment.

A total of 17 rooms have been destroyed in the latest incident, eight of them built by the United Nations Relief and Works Agency for Palestine Refugees in the Near East (UNRWA), which has a mandate from the General Assembly to provide services to Palestine refugees.

UNRWA Protests

On previous occasions UNRWA has made it clear that the demolitions were contrary to international law. For instance, under the Fourth Geneva Convention (1949), any destruction by an occupying Power of such property "is prohibited, except where such destruction is rendered absolutely necessary by military operations". A written protest has been handed to Israeli authorities in Gaza.

from THE WASHINGTON POST, January 29, 1983

Israeli Soldiers' Trial In Assault on Arabs Probes Army Policy

By Edward Walsh
Washington Post Foreign Service

JAFFA, Israel, Jan. 28—In an aging, dilapidated building in this heavily Arab city, the Israeli Army is being accused of mounting a campaign of systematic harassment, indiscriminate punishment and occasional brutality against the Palestinian Arabs of the occupied West Bank.

The drama surrounding these accusations is unfolding in a small room in the Army's central command military court. The people making the charges, however, are not the Arabs who have chafed under 15 years of Israeli occupation, but seven Israeli soldiers who were part of the occupation force.

Accused of beating, kicking and clubbing students at the Islamic University in Hebron last spring during widespread disturbances in the West Bank, Maj. David Mofaz and six other soldiers have declared their innocence and argued that all the measures they took against the Arabs conformed to the orders and guidelines laid down by their superiors.

Yesterday, the three-member military tribunal that is hearing the case decided to involve the top echelon of the Army by agreeing to a defense motion to hear testimony by Feb. 9 from Chief of Staff Lt. Gen. Rafael Eitan on two controversial documents that have been introduced by lawyers for the soldiers.

The documents, issued by Eitan, called for the punishment of the parents of students who participate in demonstrations, expulsion from the West Bank of Arabs considered troublemakers by the Israelis and "economic punishment" of whole villages known to be centers of unrest by such measures as denying them the right to purchase cement, gasoline and cigarettes.

Eitan said "instigators" should be imprisoned for investigation, without formal charges, for up to 18 days as allowed by Israeli law in the occupied territory, released for a few days and then reimprisoned. "Harass them," Eitan said, according to the documents.

Eitan, according to the documents, also urged the creation of a special "detention exile" camp in the West Bank and said that the Arab population should be informed that "the inhabitants of Jewish settlements [in the West Bank] must carry arms and open fire when attacked."

The seven soldiers are charged in the military court with assault, illegal use of weapons, negligence of duty, disrupting the discipline and good order of the Army and improper behavior. The charges stemmed from complaints made in May to Defense Ministry officials by three reserve officers who served in the West Bank last spring and who accused some soldiers of acting improperly in quelling the disturbances.

After a lengthy investigation by the military advocate general, formal charges were brought against the seven in October. The investigation also resulted in the dismissal from their posts of two senior officers in the Hebron military command.

Among other things, the prosecution has charged that one of the soldiers forced a Palestinian youth in the West Bank town of Halhul to get down on his hands and knees and bark like a dog, and on another occasion ordered an Arab man to slap another in the face.

However, largely under the prodding of Yehuda Ressler, a flamboyant Tel Aviv lawyer who is representing Mofaz in the case, the trial itself has turned not just on the behavior of the individual soldiers but on the Israeli Army's policies in dealing with the Arab population of the West Bank. By adopting as one line of defense the contention that his client was simply following orders, Ressler has thrown a spotlight on those policies and in some ways put the prosecution--the Army—in the position of the accused.

One result of this tactic was the summoning of Eitan, believed to be the first time a chief of staff has been called to testify in such a criminal proceeding.

Before agreeing to call Eitan as a witness, the military court heard testimony yesterday from Maj. Gen. Uri Orr, the Army's central commander, who denied there was an Army policy of harassment and severe punishment directed against the Palestinian Arabs.

"At that time," Orr said, referring to the wave of unrest that swept the West Bank after Israeli authorities fired several elected Arab mayors, "extremists wanted to disturb the order as much as possible. My aim was to bring about quiet."

Despite the unrest, Orr said, he instructed his soldiers to keep Arab casualties to a minimum, not to fire their weapons unless their lives were endangered and to use minimum force to control any situation.

Israeli soldiers killed 10 Palestinians and wounded 90 others during the spring disturbances. Two soldiers were killed and 33 others were wounded as a result of the clashes.

Orr said a special detention camp established in the West Bank after the Eitan documents were issued was necessary because existing jails and other facilities were full. He said the documents represented "no change in policy" and contained "nothing exceptional or illegal."

In earlier testimony, Mofaz, the senior officer facing the charges, attempted to link Defense Minister Ariel Sharon to a policy of brutality toward the Palestinian Arabs.

Mofaz testified that he was told by another Army officer that during a meeting at the Israeli civil administration headquarters in the West Bank Sharon had said the Army should "rip the testicles off" Arabs caught in demonstrations.

When he and others were ordered into the Islamic University in Hebron last spring, Mofaz said, their orders were to remove the students in small groups, "detain them, photograph them and deal with them."

Asked what he understood to "deal with them" meant, Mofaz said, "I understood to beat them—to deal with those who deserved to be dealt with." He said this was "the atmosphere and the policy at the time, including to beat detainees."

Another witness testified that Mofaz's former commanding officer, Lt. Col. Shalom Lugassi, had issued orders to beat local Arab residents, break their watches and generally pester them as punishment for infractions under the occupation government.

Earlier this week, Eitan, appearing at a seminar in Tel Aviv, was asked about the documents that have been introduced in the trial of the seven soldiers. "None of these methods was illegal," he replied.

from THE NEW YORK TIMES, March 2, 1983

Hebron Mayor Says Israelis Kidnapped 2 Arab Teen-Agers

Special to The New York Times

JERUSALEM, March 1 — The Acting Mayor of Hebron in the Israeli-occupied West Bank said today that Jewish settlers had kidnapped two Arab teenagers from a nearby high school.

The whereabouts of the youths is not known, the Acting Mayor, Mustapha Natshe, said. They were taken in a car from their school in the village of Yatta by four men apparently from a neighboring Jewish settlement, he said.

The Israeli military command said two Arab youths had been taken from Yatta after they had thrown rocks at the settlers' car. Mr. Natshe denied this. "Maybe they wish to cover this up for the settlers by saying the youths threw stones," he said.

It was the second incident in the village since Monday, when settlers fired gunshots at a passing car but wounded nobody. A police spokesman said that two men had been detained for questioning in connection with Monday's incident.

In other recent incidents in the Hebron area, two Arab men were wounded last Friday when a grenade exploded outside the Kazazine Mosque. On Saturday a 5-year-old Arab girl was hospitalized after pistol shots were fired into her home near the Jewish settlement of Kiryat Arba.

U.S. 'Concerned' Over Unrest

WASHINGTON, March 1 (UPI) — The State Department said today that it was concerned about worsening violence in the occupied West Bank.

"We, of course, deplore all such violence and trust that the Israeli authorities are doing their best to bring the perpetrators of the shooting incident to justice," said John Hughes, the department spokesman.

from THE JERUSALEM POST January 21, 1983

Eitan urged detention camps, exile

By DAVID RICHARDSON
Jerusalem Post Reporter

Chief of Staff Rav-Aluf Rafael Eitan issued a memorandum last April recommending that the Israel Defence Forces, the General Security Service and the Coordinator of Activities in the Administered Territories in the Defence Ministry demand "punishment by expulsion" to curb the current widespread unrest in Judea and Samaria.

This is one of several recommendations and instructions Eitan issued in two documents circulated by his bureau. Other instructions included harassing suspected inciters and stone-throwers with repeated and arbitrary arrests, punishing parents, and using collective punishments such as curfews and economic sanctions against troublesome villages.

The documents were among those submitted to the Central District Military Court in Jaffa on Wednesday during the trial of an officer and six soldiers charged with assaulting and otherwise maltreating Arabs in Hebron last March and April.

According to the memorandum, Eitan singled out issues such as the withdrawal from Sinai and the introduction of the civil administration as the main causes for unrest, and recommended that "we demand punishment by expulsion." He suggested that a "detention/exile camp" be built, "even if it does not have the conditions of a normal prison," where detainees were to be kept until their investigation.

A camp for teenage detainees has since been built at Far'a near Nablus.

Other recommendations were:

- "to arrest sparingly according to lists of suspects, arrest gradually according to the number of places available in the prisons"
- "to use the means of punishing parents"
- "to demonstrate a positive attitude to the 'good ones' and a harsh attitude to the 'bad ones' (carrot and stick)"

In a document issued by Eitan's adjutant following a tour of the area on April 2, the chief of staff issued clear instructions:

- "Inciters are to be dealt with forcefully and detained at every opportunity"
- "One must construct a camp urgently and use the legal facilities permitting detention for questioning (without trial) for the period stipulated...[18 days]... release for a day or two and then renewed arrest (harassment)" (*tirtur* in Hebrew).
- "The civil administration is to refrain from inviting notables in order to warn them (we humiliate ourselves) and is instead to carry out arrests."
- "The residents of the Jewish settlements have to carry arms and open fire when they are attacked. This should be made clear and publicized among the Arab residents."
- "The civil administration should make extensive use of economic sanctions against problematic (Arab) localities, such as preventing the purchase of cement or fuel for a period we will determine."

Peace Now has sent a letter to Prime Minister Menachem Begin demanding that he publically dissociate himself from Eitan's guidelines and instruct him to change them. Members of Peace Now originally had submitted the complaints about the IDF's behaviour in Hebron to the army judge — advocate-general, resulting in the trial in Jaffa.

Knesset Member Amnon Rubinstein (Shinui) said yesterday that, *prima facie*, Eitan had issued instructions to his officers to give illegal orders to their men and "appeared to have encouraged settler fanatics to open fire on demonstrators

American Enterprise Institute for Public Policy Research
1150 Seventeenth Street, N.W., Washington, D.C. 20036

Summary of
A CONVERSATION WITH MERON BENVENISTI*
October 27, 1982
THE WEST BANK DATA PROJECT

Demography of the West Bank

I. Population:

Arab: 704,000
Jewish: 22,000

II. Population trends:

"5 Minutes to Midnight"

Within 36 months there will be some 100,000 Jewish inhabitants of the West Bank. If this occurs, it will become impossible for any Israeli government to relinquish control, as 100,000 inhabitants corresponds to 50,000 voters and 4 seats in the Knesset.

The "demographic threat" of a gradually increasing ratio of Arabs to Jews in the West Bank appears to be a fallacy. Despite a higher birth rate among Arabs than among Jews, the aggregate Arab growth rate is about half that of the Jewish growth rate.

Arab birth rate: 4.1%
Arab population growth rate: 1.4%

The above discrepancy is due to the highly negative migration balance among West Bank Arabs, especially during the period after 1974. The rate continues to increase.

1968-present: 100,000 emmigrants
1980: 18,000 emmigrants

Settlements

I. Number of Settlements:

Existing or under construction: 75
Advanced stages of planning: 19
Preliminary stages of planning: 60

II. Large-scale urban settlements:

Number planned: 10
Population anticipated: 320,000

Purpose: to develop suburban bedroom communities serving such Israeli cities as Jerusalem and Tel Aviv, and to bind the economy of the West Bank to the economy of Israel.

Means of development: private development being sold to non-ideologically motivated settlers. These villas have sold rapidly as they cost less than half of comparable properties in Israel. Thus, they represent the single greatest source of new settlers for the West Bank.

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* **Meron Benvenisti is a city planner and former Deputy Mayor of Jerusalem**

III. Lands presently occupied or expropriated:
  Absentee property: land abandoned by 1967 refugees
  Property of Jordanian Government or King
  Military requisitions: theoretically still privately owned
  Lands closed for military purposes
  Lands expropriated under Jordanian law (i.e. roads)
  Jewish owned lands prior to 1967
  Lands purchased since 1967
    1967-79: public purchases only
    1979 and after: public and private purchases

IV. Lands susceptible to expropriation: 55-60%

Under an Ottoman law known as the Turkish Land Code, any lands which are uninhabited and beyond the sound of a human voice from the nearest village revert to the ownership of the Sultan. Israel interprets and applies this law to mean that such lands revert to the government of Israel. In order to obtain these "dead lands," the government simply claims them, allowing 21 days for counterclaims. The burden of proof is on the counterclaimant, and only Israeli issued titles are accepted as such proof.

Economy

I. The West Bank is the single largest export market for Israel, compromising 25% of the total Israeli export market. It is closed and protected, and is subject to a deliberate attempt to subordinate the West Bank economy to that of Israel.

II. The West Bank economy is essentially stagnant, despite:

12% average annual growth in GNP
10% average annual growth in per capita GNP

This stagnation is largely explained by the consistent rise in the remittances from abroad.

Expressed as a % of GNP:
1976: 28%
1977: 27%
1978: 30%
1979: 34%
1980: 35%

It is also largely explained by the weakness of the industrial sector of the West Bank economy, which is small and undeveloped:

- Fifty-seven percent of all industrial plants employ fewer than 3 workers; .01% employ more than 100 workers.
- The Israeli government does not permit the development of credit or capital markets, without which industrial

development is impossible. At present there are no credit facilities in the West Bank.

Expressed as a % of GNP:

1976: 6.6%
1978: 7.3%
1980: 6.7%

III. The strongest, most stable sector of the West Bank economy is agriculture. Although the two-year crop cycle of the olive tree makes it somewhat difficult to measure, the value of agricultural production of the West Bank has remained relatively stable.

Expressed as a % of GNP:

1976: 34.4%
1980: 37.0%

Employment

I. West Bank labor force: 131,000. This represents essentially full employment. West Bank workers employed in Israel or by Israeli companies in the West Bank:

Officially employed in Israel: 39,000 (29%)
Unofficially employed in Israel: 20,000 (15%)
Employed in West Bank by Israeli subcontractors: 15,000 (11%)

Employment of West Bank workers in Israel is not a new pattern; of those employed in Israel:

Two-thirds have worked in Israel for more than 4 years
One-third have worked in Israel for more than 10 years

II. Wage scales:

Arab workers employed in Israel receive 50-60% of the wages paid Israeli workers for comparable work. This is not so much active discrimination as their non-representation by Israeli labor unions (Histadrut) which fear de facto annexation. West Bank workers do not have access to generous union pension plans and they do not receive comparable fringe benefits to those received by unionized workers.

Legal and Administrative Systems

I. Trend is towards dual legal and administrative system:

Jewish system: Order 783 established regional and local councils in the West Bank comparable to those in Israel.

Israeli municipal codes are reissued as military orders. This is intended to make the West Bank a de facto part of the Israeli system without formal annexation.

Arab system: Order 947 separated civilian and military affairs, but left all actual power in the hands of the military authorities. Civil administration has only subsidiary powers. Previous military orders have been raised to status of permanent law in order to guarantee their survival regardless of future changes in the status of the West Bank.

II. Israeli military acts as permanent authority, and responds only to those sections of the Geneva Convention which it chooses to accept, including land usage, economic planning and military organization. These are generally the "humanitarian" sections.

Reagan Initiative

President Reagan's initiative of September 1st provided a coherent, alternative foreign policy for Begin's opposition. It helped define the opposition camps more clearly.

The majority of Israelis oppose giving up the West Bank, but this has largely reflected the lack of an alternative option. The Reagan initiative provides such an option for Israelis who oppose annexation of the West Bank.

DEPARTMENT OF STATE

BUREAU OF INTERNATIONAL ORGANIZATION AFFAIRS
Reference and Documents Section

The enclosed material is sent to you in response to your request.

Remarks:

Resolution	Adopted:
508	unanimously
509	unanimously
511	13 to 0, w/ 2 abstentions (Poland, USSR)
512	unanimously
513	unanimously
515	14 to 0, U.S. not participating
516	unanimously
517	14 to 0, 1 abstention (U.S.)
518	unanimously
519	13 to 0, w/ 2 abstentions (Poland, USSR)
520	unanimously
521	unanimously
523	13 to 0, w/ 2 abstentions (Poland, USSR)
529	13 to 0, w/ 2 abstentions (Poland, USSR)

ADDENDUM FROM FCNL FILES: Draft resolution proposed by Egypt and France and currently before the Security Council

Draft resolution S/15185 proposed by Spain, vetoed by the U.S.

Draft resolution S/15255 proposed by France, vetoed by the U.S.

Draft resolution proposed by the U.S.S.R., veoted by the U.S.

Security Council

DISTR.
GENERAL

S/RES/508 (1982)
5 June 1982

RESOLUTION 508 (1982)

Adopted by the Security Council at its 2374th meeting, on 5 June 1982

The Security Council,

Recalling Security Council resolutions 425 (1978), 426 (1978) and the ensuing resolutions, and more particularly, Security Council resolution 501 (1982),

Taking note of the letters of the Permanent Representative of Lebanon dated 4 June 1982 (S/15161 and S/15162),

Deeply concerned at the deterioration of the present situation in Lebanon and in the Lebanese-Israeli border area, and its consequences for peace and security in the region,

Gravely concerned at the violation of the territorial integrity, independence, and sovereignty of Lebanon,

Reaffirming and supporting the statement made by the President and the members of the Security Council on 4 June 1982 (S/15163), as well as the urgent appeal issued by the Secretary-General on 4 June 1982,

Taking note of the report of the Secretary-General,

1. *Calls upon* all the parties to the conflict to cease immediately and simultaneously all military activities within Lebanon and across the Lebanese-Israeli border and no later than 0600 hours local time on Sunday, 6 June 1982;

2. *Requests* all Member States which are in a position to do so to bring their influence to bear upon those concerned so that the cessation of hostilities declared by Security Council resolution 490 (1981) can be respected;

3. *Requests* the Secretary-General to undertake all possible efforts to ensure the implementation of and compliance with this resolution and to report to the Security Council as early as possible and not later than forty-eight hours after the adoption of this resolution.

Security Council

Distr.
GENERAL

S/RES/509 (1982)
6 June 1982

RESOLUTION 509 (1982)

Adopted by the Security Council at its 2375th meeting, on 6 June 1982

The Security Council,

Recalling its resolutions 425 (1978) of 19 March 1978 and 508 (1982) of 5 June 1982, Gravely concerned at the situation as described by the Secretary-General in his report to the Council,

Reaffirming the need for strict respect for the territorial integrity, sovereignty and political independence of Lebanon within its internationally recognized boundaries,

1. Demands that Israel withdraw all its military forces forthwith and unconditionally to the internationally recognized boundaries of Lebanon;

2. Demands that all parties observe strictly the terms of paragraph 1 of resolution 508 (1982) which called on them to cease immediately and simultaneously all military activities within Lebanon and across the Lebanese-Israeli border;

3. Calls on all parties to communicate to the Secretary-General their acceptance of the present resolution within 24 hours;

4. Decides to remain seized of the question.

Security Council

Distr.
GENERAL

S/RES/511 (1982)
18 June 1982

RESOLUTION 511 (1982)

Adopted by the Security Council at its 2379th meeting,
held on 18 June 1982

The Security Council,

Recalling its resolution 425 (1978), 426 (1978), 427 (1978), 434 (1978), 444 (1979), 450 (1979), 459 (1979), 467 (1980), 483 (1980), 488 (1981), 490 (1981), 498 (1981), and 501 (1982),

Reaffirming its resolutions 508 (1982) and 509 (1982),

Having studied the report of the Secretary-General on the United Nations Interim Force in Lebanon (S/15194 and Add.1 and 2) and taking note of the conclusions and recommendations expressed therein,

Bearing in mind the need to avoid any developments which could further aggravate the situation and the need, pending an examination of the situation by the Council in all its aspects, to preserve in place the capacity of the United Nations to assist in the restoration of the peace,

1. Decides as an interim measure, to extend the present mandate of the Force for a period of two months, that is, until 19 August 1982;

2. Authorizes the Force during that period, to carry out, in addition, the interim tasks referred to in paragraph 17 of the Secretary-General's report (S/15194/Add.2);

3. Calls on all concerned to extend full co-operation to the Force in the discharge of its tasks;

4. Requests the Secretary-General to keep the Security Council regularly informed of the implementation of resolutions 508 (1982) and 509 (1982) and the present resolution.

Security Council

Distr.
GENERAL

S/RES/512 (1982)
19 June 1982

RESOLUTION 512 (1982)

Adopted by the Security Council at its 2380th meeting
on 19 June 1982

The Security Council,

Deeply concerned at the sufferings of the Lebanese and Palestinian civilian populations,

Referring to the humanitarian principles of the Geneva Conventions of 1949 and to the obligations arising from the regulations annexed to the Hague Convention of 1907,

Reaffirming its resolutions 508 (1982) and 509 (1982),

1. Calls upon all the parties to the conflict to respect the rights of the civilian populations, to refrain from all acts of violence against those populations and to take all appropriate measures to alleviate the suffering caused by the conflict, in particular, by facilitating the dispatch and distribution of aid provided by United Nations agencies and by non-governmental organizations, in particular, the International Committee of the Red Cross (ICRC);

2. Appeals to Member States to continue to provide the most extensive humanitarian aid possible;

3. Stresses the particular humanitarian responsibilities of the United Nations and its agencies, including the United Nations Relief and Works Agency for Palestine Refugees in the Near East (UNRWA), towards civilian populations and calls upon all the parties to the conflict not to hamper the exercise of those responsibilities and to assist in humanitarian efforts;

4. Takes note of the measures taken by the Secretary-General to co-ordinate the activities of the international agencies in this field and requests him to make every effort to ensure the implementation of and compliance with this resolution and to report on these efforts to the Council as soon as possible.

Security Council

Distr.
GENERAL

S/RES/513 (1982)
4 July 1982

RESOLUTION 513 (1982)

Adopted by the Security Council at its 2382nd meeting,
on 4 July 1982

The Security Council,

Alarmed by the continued sufferings of the Lebanese and Palestinian civilian populations in South Lebanon and in West Beirut, *Referring* to the humanitarian principles of the Geneva Conventions of 1949 and to the obligations arising from the Regulations annexed to the Hague Convention of 1907,

Reaffirming its resolutions 508 (1982), 509 (1982) and 512 (1982),

1. *Calls* for respect for the rights of the civilian populations without any discrimination and repudiates all acts of violence against those populations;

2. *Calls further* for the restoration of the normal supply of vital facilities such as water, electricity, food and medical provisions, particularly in Beirut;

3. *Commends* the efforts of the Secretary-General and the action of international agencies to alleviate the sufferings of the civilian population and requests them to continue their efforts to ensure their success.

Security Council

Distr.
GENERAL

S/RES/515 (1982)
29 July 1982

RESOLUTION 515 (1982)

Adopted by the Security Council at its 2385th meeting,
on 29 July 1982

The Security Council,

Deeply concerned at the situation of the civilian population of Beirut,

Referring to the humanitarian principles of the Geneva Conventions of 1949 and to the obligations arising from the regulations annexed to the Hague Convention of 1907,

Recalling its resolutions 512 (1982) and 513 (1982),

1. *Demands* that the Government of Israel lift immediately the blockade of the city of Beirut in order to permit the dispatch of supplies to meet the urgent needs of the civilian population and allow the distribution of aid provided by United Nations agencies and by non-governmental organizations, particularly the International Committee of the Red Cross (ICRC);

2. *Requests* the Secretary-General to transmit the text of this resolution to the Government of Israel and keep the Security Council informed of its implementation.

Security Council

Distr.
GENERAL

S/RES/516 (1982)
1 August 1982

RESOLUTION 516 (1982)

Adopted by the Security Council at its 2386th meeting
on 1 August 1982

The Security Council,

Reaffirming its resolutions 508 (1982), 509 (1982), 511 (1982), 512 (1982) and 513 (1982),

Recalling its resolution 515 (1982) of 29 July 1982,

Alarmed by the continuation and intensification of military activities in and around Beirut,

Taking note of the latest massive violations of the cease-fire in and around Beirut,

1. Confirms its previous resolutions and demands an immediate cease-fire, and a cessation of all military activities within Lebanon and across the Lebanese-Israeli border;

2. Authorizes the Secretary-General to deploy immediately on the request of the Government of Lebanon, United Nations observers to monitor the situation in and around Beirut;

3. Requests the Secretary-General to report back to the Council on compliance with this resolution as soon as possible and not later than four hours from now.

Security Council

Distr.
GENERAL

S/15334
1 August 1982

ORIGINAL: ENGLISH

REPORT OF THE SECRETARY-GENERAL IN PURSUANCE OF SECURITY COUNCIL RESOLUTION 516 (1982)

1. This report is submitted in pursuance of Security Council resolution 516 (1982), unanimously adopted by the Security Council on 1 August 1982 at 1325 hours New York time. In this resolution, the Security Council confirmed its resolutions 508 (1982), 509 (1982), 511 (1982), 512 (1982), 513 (1982) and 515 (1982) and demanded an immediate cease-fire and cessation of all military activities within Lebanon and across the Lebanese/Israeli border, authorised the Secretary-General to deploy immediately, on the request of the Government of Lebanon, United Nations Observers to monitor the situation in and around Beirut, and requested the Secretary-General to report back to the Council on compliance with the resolution as soon as possible and not later than four hours from the time of its adoption.

2. Following the adoption of the resolution, the Permanent Representative of Lebanon sent a letter to the Secretary-General in which he requested on behalf of

his Government the stationing of United Nations Observers in the Beirut area to ensure that the cease-fire was fully observed by all concerned (S/15333).

3. Upon receipt of the request of the Lebanese Government, the Secretary-General instructed the Chief of Staff of the United Nations Truce Supervision Organization (UNTSO), Lt. General Emmanuel A. Erskine, to make the necessary arrangements, in consultation with the parties concerned, for the immediate deployment of United Nations Observers in and around Beirut in accordance with Security Council resolution 516 (1982). As the Security Council is aware, the deployment of United Nations Observers as called for by the Council will be possible only with the co-operation of all the parties and if a cease-fire is effectively achieved.

4. On the afternoon of 1 August, General Erskine met with senior officials of the Foreign Ministry of Israel in Jerusalem concerning the implementation of Security Council resolution 516 (1982). The officials informed the UNTSO Chief of Staff that this was a very important matter which had to be brought before the Israeli Cabinet. General Erskine would be advised as soon as the Cabinet had discussed this question. The officials added that, from their information, the situation in Beirut had improved as the cease-fire seemed to have taken effect.

5. At the same time, on instructions from General Erskine, the Chairman of the Israel-Lebanon Mixed Armistice Commission (ILMAC) met with the Commander of the Lebanese Army, General Khoury. The latter conveyed to the UNTSO Chief of Staff the assurance that the Lebanese Army was ready to provide all facilities and to assist the United Nations Observers in the implementation of Security Council resolution 516 (1982).

6. The Chairman of ILMAC further reported that he was making efforts to meet with Chairman Arafat, but that he was encountering difficulties in reaching him. In the meantime, the Permanent Observer of the Palestine Liberation Organization to the United Nations, Mr. Terzi, conveyed to the Secretary-General a message from Chairman Arafat informing the Secretary-General of the PLO's acceptance of the text of the resolution. The message added that the PLO would do its utmost to co-operate with United Nations Observers in accordance with paragraph 2 of the resolution.

7. The Chairman of ILMAC, who is in Beirut, has reported that from his preliminary observations on the ground, the cease-fire appeared to be holding as of 2400 hours local time, 1 August 1982.

8. General Erskine is pursuing actively his efforts to give speedy effect to the Security Council resolution. The Secretary-General will of course keep the Council currently informed of further developments.

Security Council

Distr.
GENERAL

S/RES/517 (1982)
4 August 1982

RESOLUTION 517 (1982)

Adopted by the Security Council at its 2389th meeting on 4 August 1982

The Security Council,

Deeply shocked and alarmed by the deplorable consequences of the Israeli invasion of Beirut on 3 August 1982,

1. *Reconfirms* its resolutions 508 (1982), 509 (1982), 512 (1982), 513 (1982), 515 (1982) and 516 (1982);

2. *Confirms once again* its demand for an immediate cease-fire and withdrawal of Israeli forces from Lebanon;

3. *Censures* Israel for its failure to comply with the above resolutions;

4. *Calls* for the prompt return of Israeli troops which have moved forward subsequent to 1325 hours EDT on 1 August 1982;

5. *Takes note* of the decision of the Palestine Liberation Organization to move the Palestinian armed forces from Beirut;

6. *Expresses* its appreciation for the efforts and steps taken by the Secretary-General to implement the provisions of Security Council resolution 516 (1982), and authorizes him, as an immediate step, to increase the number of United Nations observers in and around Beirut;

7. *Requests* the Secretary-General to report to the Security Council on the implementation of the present resolution as soon as possible and not later than 1000 hours EDT on 5 August 1982;

8. *Decides* to meet at that time if necessary in order to consider the report of the Secretary-General and, in case of failure to comply by any of the parties to the conflict, to consider adopting effective ways and means in accordance with the provisions of the Charter of the United Nations.

Security Council

Distr.
GENERAL

S/RES/518 (1982)
12 August 1982

RESOLUTION 518 (1982)

Adopted by the Security Council at its 2392nd meeting on 12 August 1982

The Security Council,

Recalling its resolutions 508 (1982), 509 (1982), 511 (1982), 512 (1982), 513 (1982), 515 (1982), 516 (1982), and 517 (1982),

Expressing its most serious concern about continued military activities in Lebanon and, particularly, in and around Beirut,

1. *Demands* that Israel and all parties to the conflict observe strictly the terms of Security Council resolutions relevant to the immediate cessation of all military activities within Lebanon and, particularly, in and around Beirut;

2. *Demands* the immediate lifting of all restrictions on the city of Beirut in order to permit the free entry of supplies to meet the urgent needs of the civilian population in Beirut;

3. *Requests* the United Nations observers in and in the vicinity of Beirut to report on the situation;

4. *Demands* that Israel co-operate fully in the effort to secure the effective deployment of the United Nations observers, as requested by the Government of Lebanon, and in such a manner as to ensure their safety;

5. *Requests* the Secretary-General to report soonest to the Security Council on the implementation of the present resolution;

6. *Decides* to meet if necessary in order to consider the situation upon receipt of the report of the Secretary-General.

Security Council

Distr.
GENERAL

S/RES/519 (1982)
17 August 1982

RESOLUTION 519 (1982)

Adopted by the Security Council at its 2393rd meeting on 17 August 1982

The Security Council,

Recalling its resolutions 425 (1978), 426 (1978), 427 (1978), 434 (1978), 444 (1979), 450 (1979), 459 (1979), 467 (1980), 483 (1980), 488 (1981), 490 (1981), 498 (1981), 501 (1982) and 511 (1982),

Reaffirming its resolutions 508 (1982) and 509 (1982), as well as subsequent resolutions on the situation in Lebanon,

Having studied with grave concern the report of the Secretary-General on the United Nations Interim Force in Lebanon (S/15357) and noting its conclusions and recommendations and the wishes of the Lebanese Government as set out therein,

Bearing in mind the need, pending an examination by the Council of the situation in all its aspects, to preserve in place the capacity of the United Nations to assist in the restoration of the peace and of the authority of the Lebanese Government throughout Lebanon,

1. *Decides* to prolong the present mandate of UNIFIL for a further interim period of two months, that is, until 19 October 1982;

2. *Authorizes* the Force during that period to continue to carry out, in addition, the interim tasks in the humanitarian and administrative fields assigned to it in operative paragraph 2 of resolution 511 (1982);

3. *Calls on* all concerned, taking into account paragraphs 5, 8 and 9 of the Secretary-General's report (S/15357), to extend full co-operation to the Force in the discharge of its tasks;

4. *Supports* the efforts of the Secretary-General, with a view to optimum use of UNTSO observers as envisaged by relevant resolutions of the Security Council;

5. *Decides* to consider the situation fully and in all its aspects before 19 October 1982.

Security Council

Distr.
GENERAL

S/RES/520 (1982)
17 September 1982

RESOLUTION 520 (1982)

*Adopted by the Security Council at its 2395th meeting,
on 17 September 1982*

The Security Council,

Having considered the report of the Secretary-General of 15 September 1982 (S/15382/Add.1),

Condemning the murder of Bashir Gemayel, Lebanon's constitutionally selected President-elect, and every effort to disrupt by violence the restoration of a strong, stable government in Lebanon,

Having listened to the statement by the Permanent Representative of Lebanon,

Taking note of Lebanon's determination to ensure the withdrawal of all non-Lebanese forces from Lebanon,

1. *Reaffirms* its resolutions 508 (1982), 509 (1982) and 516 (1982) in all their components;

2. *Condemns* the recent Israeli incursions into Beirut in violation of the cease-fire agreements and of Security Council resolutions;

3. *Demands* an immediate return to the positions occupied by Israel before 15 September 1982, as a first step towards the full implementation of Security Council resolutions;

4. *Calls again* for the strict respect for Lebanon's sovereignty, territorial integrity, unity and political independence under the sole and exclusive authority of the Lebanese Government through the Lebanese Army throughout Lebanon;

5. *Reaffirms* its resolutions 512 (1982) and 513 (1982) which call for respect for the rights of the civilian populations without any discrimination and repudiates all acts of violence against those populations;

6. *Supports* the efforts of the Secretary-General to implement Security Council resolution 516 (1982) concerning the deployment of United Nations observers to monitor the situation in and around Beirut and requests all the parties concerned to co-operate fully in the application of that resolution;

7. *Decides* to remain seized of the question and asks the Secretary-General to keep the Council informed on developments as soon as possible and not later than twenty-four hours.

Security Council

Distr.
GENERAL

S/RES/521 (1982)
19 September 1982

RESOLUTION 521 (1982)

*Adopted by the Security Council at its 2396th meeting
on 19 September 1982*

The Security Council,

Appalled at the massacre of Palestinian civilians in Beirut,

Having heard the report of the Secretary-General (S/15400), Noting that the Government of Lebanon has agreed to the dispatch of United Nations Observers to the sites of greatest human suffering and losses in and around that city,

1. Condemns the criminal massacre of Palestinian civilians in Beirut;

2. Reaffirms once again its resolutions 512 (1982) and 513 (1982) which call for respect for the rights of the civilian population without any discrimination and repudiates all acts of violence against that population;

3. Authorizes the Secretary-General as an immediate step to increase the number of United Nations observers in and around Beirut from 10 to 50 and insists that there shall be no interference with the deployment of the observers and that they shall have full freedom of movement;

4. Requests the Secretary-General, in consultation with the Government of Lebanon, to ensure the rapid deployment of those observers in order that they may contribute in every way possible within their mandate, to the effort to ensure full protection for the civilian population;

5. Requests the Secretary-General as a matter of urgency to initiate appropriate consultations and in particular consultations with the Government of Lebanon on additional steps which the Council might take, including the possible deployment of United Nations forces, to assist that Government in ensuring full protection for the civilian population in and around Beirut and requests him to report to the Council within forty-eight hours;

6. Insists that all concerned must permit United Nations observers and forces etablished by the Security Council in Lebanon to be deployed and to discharge their mandates and in this connexion solemnly calls attention to the obligation on all Member States under Article 25 of the Charter to accept and carry out the decisions of the Council in accordance with the Charter;

7. Requests the Secretary-General to keep the Council informed on an urgent and continuing basis.

Security Council

Distr.
GENERAL

S/RES/523 (1982)
18 October 1982

RESOLUTION 523 (1982)

Adopted by the Security Council at its 2400th meeting
on 18 October 1982

The Security Council,

Having heard the statement of the President of the Lebanese Republic,

Recalling its resolutions 425 (1978), 426 (1978) and 519 (1982),

Reaffirming its resolutions 508 (1982) and 509 (1982), as well as all subsequent resolutions on the situation in Lebanon,

Having studied the report of the Secretary-General (S/15455 and Corr.1), and taking note of its conclusions and recommendations,

Responding to the request of the Government of Lebanon,

1. Decides to extend the present mandate of UNIFIL for a further interim period of three months, that is, until 19 January 1983;

2. Insists that there shall be no interference under any pretext with the operations of UNIFIL and that the Force shall have full freedom of movement in the discharge of its mandate;

3. Authorizes the Force during that period to carry out, with the consent of the Government of Lebanon, interim tasks in the humanitarian and administrative fields, as indicated in resolutions 511 (1982) and 519 (1982), and to assist the Government of Lebanon in assuring the security of all the inhabitants of the area without any discrimination;

4. Requests the Secretary-General, within the three-month period, to consult with the Government of Lebanon and to report to the Council on ways and means of ensuring the full implementation of the UNIFIL mandate as defined in resolutions 425 (1978) and 426 (1978), and the relevant decisions of the Security Council;

5. Requests the Secretary-General to report to the Security Council on the progress of his consultations.

Security Council

Distr.
GENERAL

S/RES/529 (1983)
18 January 1983

RESOLUTION 529 (1983)

Adopted by the Security Council at its 2411th meeting
on 18 January 1983

The Security Council,

Recalling its resolutions 425 (1978) and 426 (1978), and all subsequent resolutions on the United Nations Interim Force in Lebanon,

Recalling further its resolutions 508 (1982) and 509 (1982),

Having taken note of the letter of the Permanent Representative of Lebanon to the President of the Security Council and to the Secretary-General of 13 January 1983 (S/15557, annex), and of the statement he made at the meeting of the Council,

Having studied the report of the Secretary-General (S/15557) and taken note of his observations,

Responding to the request of the Government of Lebanon,

1. Decides to extend the present mandate of the United Nations Interim Force in Lebanon for a further interim period of six months, that is, until 19 July 1983;

2. Calls upon all parties concerned to co-operate with the United Nations Interim Force in Lebanon for the full implementation of this resolution;

3. Requests the Secretary-General to report to the Council on the progress made in this respect.

UNITED NATIONS

SECURITY
COUNCIL

Distr.
GENERAL

S/15317
28 July 1982
ENGLISH
ORIGINAL: FRENCH

Egypt and France: draft resolution

The Security Council,

Guided by the purposes and principles of the Charter of the United Nations,

Recalling its resolutions 242 (1967) and 338 (1973),

Recalling further its resolutions 508 (1982), 509 (1982), 511 (1982), 512 (1982) and 513 (1982),

Gravely concerned at the situation in the Middle East, in particular the existing situation in Lebanon,

Reaffirming the obligation of all to respect strictly the sovereignty, territorial integrity and political independence of all countries and the legitimate national rights of all peoples in the Middle East,

Reaffirming further the obligation that all States shall settle their disputes by peaceful means in such a manner that international peace and security and justice are not endangered and that they shall refrain from the threat or use of force against the territorial integrity or political independence of any State or in any other manner inconsistent with the purposes of the United Nations,

Determined to seek the restoration of peace and security in the region, based on the principles of security for all States and justice for all peoples,

A

1. *Demands* that all the parties to the existing hostilities in Lebanon observe an immediate and lasting cease-fire throughout Lebanon;

2. *Demands* the immediate withdrawal of the Israeli forces engaged around Beirut to an agreed distance as a first step towards their complete withdrawal from Lebanon and the simultaneous withdrawal from West Beirut of the Palestinian armed forces, which will be redeployed with their light weapons, as a first step in camps to be determined, preferably outside Beirut, through modalities to be agreed upon between the parties, so putting an end to their military activities;

3. *Calls* for the conclusion of an agreement between the Palestinian armed forces and the Government of Lebanon concerning the destination and destiny of their weapons, other than those referred to above;

4. *Calls* for the departure of all non-Lebanese forces except those which would be authorized by the legitimate and representative authorities of Lebanon;

5. *Supports* the Government of Lebanon in its efforts to regain exclusive control of its capital and, to that end, to install its armed forces, which shall take up positions in Beirut and interpose themselves on its periphery;

6. *Further supports* all efforts by the Government of Lebanon to ensure Lebanese sovereignty throughout the territory and the integrity and independence of Lebanon within its internationally recognized frontiers;

B

1. *Requests* the Secretary-General, as an immediate measure, to station United Nations military observers, by agreement with the Government of Lebanon, in order to supervise the cease-fire and disengagement in and around Beirut;

2. *Further requests* the Secretary-General, bearing in mind the provisions of Security Council resolution 511 (1982), to prepare a report on the prospects for the deployment of a United Nations peace-keeping force which could, within the framework of the implementation of the preceding paragraphs, take up positions beside the Lebanese interposition forces, or on the use of the United Nations forces already deployed in the region;

C

1. *Considers* that the settlement of the Lebanese problem should contribute to the initiation of a durable restoration of peace and security in the region within the framework of negotiations based on the principles of security for all States and justice for all peoples, in order namely to:

(a) Reaffirm the right of all States in the region to existence and security in accordance with Security Council resolution 242 (1967);

(b) Reaffirm the legitimate national rights of the Palestinian people, including the right to self-determination with all its implications, on the understanding that to this end the Palestinian people shall be represented in the negotiations and, consequently, the Palestine Liberation Organization shall be associated therein;

(c) Call for the mutual and simultaneous recognition of the parties concerned;

2. *Requests* the Secretary-General, in consultation with all the parties concerned including the representatives of the Palestinian people, to make proposals to the Security Council designed to achieve by political means the objectives mentioned above, with a view to the recognition of and respect for the existence and security of all;

D

1. *Requests* the Secretary-General to report to the Council on an urgent and sustained basis not later than ____________ on the status of the implementation of the present resolution;

2. *Requests* all Member States to co-operate fully with the United Nations Secretariat in the implementation of the present resolution.

SECURITY
COUNCIL

Distr.
GENERAL

S/15185
8 June 1981 2

ORIGINAL: ENGLISH

Spain: draft resolution

The Security Council,

Recalling its resolutions 508 (1982) and 509 (1982),

Taking note of the report of the Secretary-General (S/15178) of 7 June 1982, *Also taking note* of the two positive replies to the Secretary-General of the Government of Lebanon and the Palestine Liberation Organization contained in document S/15178,

1. *Condemns* the non-compliance with resolutions 508 (1982) and 509 (1982) by Israel;

2. *Urges* the parties to comply strictly with the regulations attached to the Hague Convention of 1907;

3. *Reiterates its demand* that Israel withdraw all its military forces forthwith and unconditionally to the internationally recognized boundaries of Lebanon;

4. *Reiterates also its demand* that all parties observe strictly the terms of paragraph 1 of resolution 508 (1982) which called on them to cease immediately and simultaneously all military activities within Lebanon and across the Lebanese-Israeli border;

5. *Demands* that within six hours all hostilities must be stopped in compliance with Security Council resolutions 508 (1982) and 509 (1982) and decides, in the event of non-compliance, to meet again to consider practical ways and means in accordance with the Charter of the United Nations.

SECURITY COUNCIL

Distr.
GENERAL

S/15255/Rev.2
25 June 1982
ENGLISH
ORIGINAL: FRENCH

France: revised draft resolution

The Security Council,

Reaffirming its resolutions 508 (1982) and 509 (1982),

Reaffirming also its resolution 512 (1982), which, *inter alia*, calls upon all the parties to the conflict to respect the rights of the civilian populations,

Seriously concerned at the constant deterioration of the situation in Lebanon, resulting from the violation of the sovereignty, integrity, independence and unity of that country,

Profoundly apprehensive of the dangers of extension of the fighting within Beirut, its capital,

1. *Demands* that all the parties observe an immediate cessation of hostilities throughout Lebanon;

2. *Demands* the immediate withdrawal of the Israeli forces engaged round Beirut, to a distance of 10 kilometres from the periphery of that city, as a first step towards the complete withdrawal of Israeli forces from Lebanon, and the simultaneous withdrawal of the Palestinian armed forces from Beirut, which shall retire to the existing camps;

3. *Supports* all efforts by the Government of Lebanon to ensure Lebanese sovereignty throughout the territory and the integrity and independence of Lebanon within its internationally recognized frontiers;

4. *Calls upon* all armed elements in the Beirut area to respect and abide by the exclusive authority of the Government of Lebanon;

5. Supports the Government of Lebanon in its will to regain exclusive control of its capital and, to that end, to install its armed forces which shall take up positions within Beirut and interpose themselves on its periphery;

6. Requests the Secretary-General, as an immediate measure, to station United Nations military observers, by agreement with the Government of Lebanon, with instructions to supervise the cease-fire and disengagement in and round Beirut;

7. Further requests the Secretary-General to study any request by the Government of Lebanon for the installation of a United Nations force which could, within the framework of the implementation of the preceding paragraphs, take up positions beside the Lebanese interposition forces, or for the use of the forces available to the United Nations in the region;

8. Requests the Secretary-General to report to the Council on an urgent and sustained basis not later than 1 July 1982 on the status of implementation of the present resolution and of resolutions 508 (1982), 509 (1982) and 512 (1982);

9. Requests all Member States to co-operate fully with the United Nations in the implementation of the present resolution;

10. Decides to remain seized of the question.

Security Council

Distr.
GENERAL

S/15347/Rev.1
6 August 1982
ENGLISH
ORIGINAL: RUSSIAN

Union of Soviet Socialist Republics: revised draft resolution

The Security Council,

Deeply indignant at the refusal of Israel to comply with the decisions of the Security Council aimed at terminating the bloodshed in Beirut,

1. Strongly condemns Israel for not implementing resolutions 516 (1982) and 517 (1982);

2. Demands that Israel immediately implement these resolutions fully;

3. Decides that, in order to carry out the above-mentioned decisions of the Security Council, all the States Members of the United Nations should refrain from supplying Israel with any weapons and from providing it with any military aid until the full withdrawal of Israeli forces from all Lebanese territory.

FRIENDS COMMITTEE ON NATIONAL LEGISLATION

245 Second St. NE
Washington DC 20002
(202) 547-6000 Office
(202) 547-4343 Update Tape

17 March 1983

Sen. Alfonse D'Amato
SR-440
U.S. Senate
Washington, DC 20510

Dear Senator D'Amato:

The materials that I promised you on Sa'ad Haddad are enclosed. The State Department doesn't, of course, deal with the question of whether the Haddad militia is better or worse than other militias. The record is such that the terms "better" or "worse" seem inappropriate.

I hope this material will be helpful as you consider the Administration's requests for military aid to Israel.

Would you please include this information in the hearing transcript.

Thank you.

Sincerely,

Frances Neely
Frances E. Neely

enc.

cc: Members of the Senate Appropriations Subcommittee on Foreign Operations

United States Department of State

Washington, D.C. 20520

March 15, 1983

Ms. Frances Neely
Friends Committee on
National Legislation
245 Second Street, N.W.
Washington, D.C. 20002

Dear Ms. Neely:

I have enclosed the material we use to respond to public inquiries on Sa'ad Haddad. As I mentioned to you on the telephone yesterday, we have not updated it since Amin Gemayel became president, but the substance of the letter and attachment remain valid.

Sincerely,

A Elizabeth Jones

A. Elizabeth Jones
Deputy Director
Office for Lebanon, Syria,
Jordan and Iraq

Enclosure as stated.

EXCERPTS FROM STATE DEPARTMENT LETTER

Sa'ad Haddad is a former officer of the Lebanese Armed Forces who has refused for the past several years to accept the authority of the constitutional government of Lebanon. Following the disintegration of the Lebanese Army in 1976, Haddad, with a few hundred former regular army troops, entrenched himself in an area of southern Lebanon that is populated partly by Christians (both Maronite and Greek Orthodox), but mostly by Muslim Shia. Haddad's militias include about 3,000 men, about half of whom are Shia and half Christian.

As a result of Sa'ad Haddad's refusal to accept the authority of Lebanon's central government, the Commanding General of the Lebanese Armed Forces has stated publicly that "Haddad was dishonorably discharged from the army in accordance with a disciplinary sentence. He is no longer an officer in the army and has been referred to the judiciary." The Prime Minister has stated that "the Lebanese government strongly condemns the stance of Sa'ad Haddad," adding that "Haddad's attitude constitutes an attempt to partition the homeland." In these circumstances, the U.S. Government has not and will not recognize the legitimacy or legality of so-called "Free Lebanon" or the actions of those, including Sa'ad Haddad, who purport to govern in this area, which is wholly within the internationally-recognized territory of the Republic of Lebanon.

In April 1980, Haddad's militias initiated a series of attacks on UN positions and soldiers. On April 12, they subjected UNIFIL Headquarters and the UN Field Hospital in Naqura to heavy shelling. At about the same time, these militias began demanding that the people of a near-by village arrange the payment to them of 40,000 Lebanese pounds, ostensibly as compensation for the death of a militia soldier on April 12. They stated that this demand would be waived if the bodies of two Irish UNIFIL soldiers were "delivered" to them. This was followed, on April 18, by the capture in Haddad's enclave of three Irish soldiers serving with UNIFIL, two UN observers, a journalist and a UN press advisor. The militias disarmed the Irish soldiers, murdered two of them, and severely wounded the third. This incident was described by U.S. leaders as "an act of barbarism" and we expressed our shock at the murder in cold blood of two Irish soldiers. At the UN, we publicly condemned this "cowardly murder" noting that "the mindless horror of executing innocent men serving the cause of peace is as dark and despicable an act as any that can be imagined on the world stage."

In addition, the U.S. Government has been concerned about Haddad's use of the facilities of the "Voice of Hope" radio to broadcast threats--coupled with indiscriminate shelling of populated areas--against innocent Lebanese civilians, UN posts, and U.S. military personnel serving with UN forces in the area. A chronology of certain actions by Haddad and the militias under his control, and statements broadcast on the "Voice of Hope" in his name, is enclosed, which provides a context in which to judge this matter. Sa'ad Haddad resumed broadcasting his threats against Lebanese civilians in July 1981 in another attempt to extort payments to his militias by the Lebanese government. He has also directly threatened U.S. personnel by making the claim, again using the "Voice of Hope," that he had proof that a U.S. naval officer serving with the

United Nations observer group in southern Lebanon was spying on behalf of the United States.

With respect to a possible visit to the United States by Sa'ad Haddad, it appears that Haddad's activities may affect his eligibility to receive a U.S. visa. However, a final determination about his eligibility can be made only should he apply, which he has not yet done.

Sincerely,

BACKGROUND

In view of your concern about Sa'ad Haddad, I am enclosing a brief chronology describing the events which led up to the killing of three United Nations soldiers by Sa'ad Haddad's militias on March 16, 1981, and the United States's association with a Security Council statement of March 19 addressing this attack.

A. On February 26, 1981, Haddad made the following statement on the Voice of Hope: "We again make demands on the army command, the Governor of southern Lebanon, and the Prime Minister, to release the frozen salaries of army personnel of southern Lebanon, totalling approximately 20 million Lebanese pounds, within a period not exceeding 48 hours beginning this morning. We hope this demand will be met so that we will not be forced to take revenge, which would bring about numerous disasters far outweighing the frozen salaries."

B. On February 28 and March 1, Haddad's militia fired six artillery shells into the city of Sidon.

C. On March 1, the Voice of Hope carried a speech by Haddad in which he reiterated his call for the payment of salaries and said, "We are now firing some warning shells into the vicinity of Sidon, but we may fire them into the heart of Sidon. We hope that we will not be forced to do that, and we hope that the authorities will move quickly."

D. On March 2, Haddad's militia fired four more shells into the Sidon area. Press reports stated that Haddad told reporters on the same day, "The deadline that I set for the payment of salaries has expired. I did not receive satisfaction. I consider, therefore, that I have the right to choose the location that I will hit. This will not necessarily be a town or a village. It could be public utility installations."

E. On March 3, Haddad's militia fired two more shells into Sidon, one of which struck the Girl's Evangelical School there.

F. On March 5, Haddad's militia fired into the town of Hasbayya, hitting a school in which nine children were wounded.

G. On March 5, the Department of State press spokesman issued the following statement:

> "As regards the south Lebanon situation, we have been deeply concerned and appalled by the threats coming from Sa'ad Haddad's militia along the border; that they will shell the city of Sidon if the Lebanese Government does not pay approximately $5 million to his force.
>
> "This action we consider to be criminal. We know that in recent days Haddad's militia has shelled several Lebanese towns and villages, leaving an estimated three persons dead and 21 wounded. One of the shells from the militia hit a school, injuring nine children."

H. On March 16, Haddad's forces attacked a position of the Nigerian battalion of UNIFIL, killing three Nigerian soldiers and wounding eleven other troops, including several from the Lebanese army battalion stationed in the south.

I. On the evening of March 17, Haddad issued a threat over the Voice of Hope to shell "without previous warning" any areas of southern Lebanon into which Lebanese Army troops were deployed. (A central focus of United States support for the Lebanese central government has been our program of FMS credit and training assistance to the Lebanese armed forces.)

J. On March 19, 1981, the U.S. joined in a consensus statement issued by the United Nations Security Council which addressed the attack made by Haddad's forces on the Nigerian battalion of UNIFIL.

It is a matter of record that during this period, artillery and rocket fire was returned by Palestinian and other elements opposed to Haddad. On March 2, in addition, the Israeli air force conducted a bombing raid on positions north of Tyre. The particular shelling referred to in the above chronology, however, was directed at Lebanese civilian, not Palestinian guerrilla targets, and in conjunction with extortionist threats.

ACTIVITIES OF HADDAD MILITIA

Senator D'AMATO. Wouldn't you agree that Haddad is equally repugnant? Are you aware of any atrocities that they have committed?

Ms. NEELY. I think that if you look——

Senator D'AMATO. Well, I mean are you putting them into the same category as people who go in and kill villagers and have a disregard for life? You mention Haddad, and they are arming them.

Ms. NEELY. They are generally discredited, I gather, by the Lebanese Government.

Senator D'AMATO. Have you been to Lebanon?

Ms. NEELY. I have not been there, Senator.

Senator D'AMATO. Well, I would suggest that you get your facts straight: I have been to Lebanon, under no one's auspice other than my own, to get the lay of the land and to find out what has taken place there. That area is 65 percent Moslem, and Haddad has controlled it for a period of time; 10 percent Druze; the balance Christian.

The fact of the matter is that Christians, Moslems, and Druze have been terrorized for years. Your statement fails to address what took place during 1975 and 1976 and 1977 and 1978. Should we glorify the Palestinian fighters; or are they not terrorists? Were they not, in turn, and did they not cause havoc in that country?

Do we not make mention of that? Do the Lebanese people count? Do they not have a right to live free from intrusion from all forces?

We have got a problem. Certainly, the Lebanese have a right to develop and utilize their own facilities without the intrusion of foreign forces from anywhere. What about the Syrians? I did not hear you mention the Syrians. Were they invited in by the Lebanese people, or are they occupiers?

I hear your statements, and I have to tell you from the perspective of one Senator that I find that they are totally partisan, and that they lack in factual accuracy in many extents. But please continue.

Ms. NEELY. Senator, my committee, as you probably know, does not support murder regardless of who commits it.

Senator D'AMATO. I do not support murder either.

Ms. NEELY. No.

Senator D'AMATO. But I would suggest to you that——

Ms. NEELY. I just wanted to be clear on that point.

Senator D'AMATO [continuing]. When we characterize the Palestinian fighters as fighters, why do we not add the fighters for liberation and freedom?

The fact of the matter is that I have been to Lebanon and seen Christian villages that were wiped out—Damour wiped out, totally. That does not excuse any of the atrocities that have taken place. And I condemned them, and I think it is terrible. But it is not quite as black and white as your statement would lead one to believe that the guilt lies on one side.

I would suggest to you that the eyes and ears of the world have been closed—and I will give you additional time because I certainly infringed upon your time——

Ms. **Neely**. I appreciate that.

CONCEALED WEAPONS

Senator D'**Amato**. I do not think Israel would ever have gone into Lebanon if it were not used as the staging ground, massive staging ground, for attacks upon Israel. I mean do you think that the weapons and the munitions and the supplies that were unearthed, what purpose were they there for? For the people to maintain tranquility in Lebanon, or to subvert people? That is what they were there for. It was subversive.

Syria occupied that area. When I went there, there were Moslems and Christians and leftists and rightists of every description. And you know what they said to me? They said, Senator, get them all out. Let Lebanon be for the Lebanese people—including the so-called Palestinian fighters, who had totally infiltrated areas of the government. There was no central Lebanon Government. There was no force, because they had been co-opted out by everyone. So let us get everybody out.

Ms. **Neely**. We agree with that.

Senator D'**Amato**. And we will let Lebanon be Lebanon. Let them be themselves. But people do not want that. They still want to have the ability to conduct their raids, to use Lebanon as a staging ground.

UNITED STATES AID TO ISRAEL

Ms. **Neely**. Senator, in the next paragraph I indicate why I have concentrated on Israeli actions. I have concentrated on Israeli actions because the United States has provided Israel with billions of dollars in military and financial aid. It would be natural for Israelis to assume that we provide them with that much of our substance because we approve of what they do.

Since you have oversight of the level and distribution of U.S. aid, you have a responsibility to set standards as to what is and what is not acceptable conduct by aid recipients.

Last year, the Israelis, like the Phalangists in Sabra and Shatila, might well have believed that their mentor—in this case, the United States—had given them carte blanche to move into Lebanon and clear out the terrorists regardless of consequences to women and children. If you continue military aid to Israel, you will reaffirm that belief.

If you continue military aid to Israel, you will also be acquiescing in the arming or rearming of factions within Lebanon. If these factions share with Sharon a lack of moral brakes, as one Israeli has suggested, it may be because other nations use them as proxies to attain foreign goals. And I am not eliminating any nation there. The United States, as weapons supplier to the Israeli player shares blame for the moral degradation involved.

I also would refer you to some of my attachments with regard to the impact of the occupation on the West Bank and on Gaza.

We oppose the $101 million supplemental request to help expand and equip the military forces of the Lebanese Government. Although the goal is admirable, to stabilize Lebanese society, the danger of triggering additional violence is too great. Stability might be achieved more quickly and with less pain by turning all of Lebanon into a demilitarized zone.

We urge you and the executive branch to join together in asking the United Nations to expand its peacekeeping forces in Lebanon, to assign them to stations throughout the country and to supplement their policing capability with the addition of special mediation and conciliation teams.

The U.N. peacekeeping forces could oversee the disarming of all militia, including the Phalange, and the conciliation teams could help the Lebanese and Palestinian people move away from horror and back to community.

Continuation of United States military aid to Israel, despite Israel's unwillingness to settle disputes by peaceful means, has undercut the effectiveness and curtailed the growth of international peacekeeping and peacemaking. The sending of U.S. military contingents into the Middle East, largely because Israel refuses to accept U.N. involvement, sets a precedent for bypassing the United Nations in future peacekeeping operations.

If and when there is a foreign forces withdrawal agreement, Congress may be faced with an administration request to send more troops into Lebanon. We hope you will reject that request. Please ask the administration to return peacekeeping responsibility to the world community where peacekeeping procedures may be nurtured and improved.

In the long run, no country, including Israel, will benefit from destroying the fragile international institutions that are trying to promote and monitor the peaceful settlement of disputes.

In the long run, all nations will need such institutions to help bring about a civilized response to political problems. Thank you very much, Senator.

Senator D'AMATO. Thank you very much, Frances.

Ms. NEELY. And I hope that you will have a chance to look at some of the attachments we have submitted. We realize this is an extremely difficult problem. But we do feel there are other ways of meeting security needs than war.

Senator D'AMATO. OK. Thank you for coming in.

Ms. NEELY. Thank you.

Senator D'AMATO. Janice Murphy.

[No response.]

AMERICAN ISRAEL PUBLIC AFFAIRS COMMITTEE

STATEMENT OF THOMAS A. DINE, EXECUTIVE DIRECTOR, AMERICAN ISRAEL PUBLIC AFFAIRS COMMITTEE

SUPPORT TO ISRAEL

Senator D'AMATO. Tom Dine.

Mr. DINE. Thank you, Mr. Chairman, for the opportunity to testify before this distinguished subcommittee on the proposed foreign assistance appropriations bill for fiscal year 1984.

The American Israel Public Affairs Committee [AIPAC] is an organization of Americans who value and are deeply committed to strengthening the already strong moral and strategic bonds between our country and Israel. As you know, on AIPAC's executive committee sit the presidents of 38 major American Jewish organizations representing a membership of 4,500,000 throughout the United States.

In the context of formulating a realistic foreign policy, which I believe recognizes the difference between the desirable and the essential, as well as between the desirable and the attainable, three critical questions lie before this committee as well as others throughout the Congress: First, how does aid to Israel serve the national interest of the United States? Second, is the amount under consideration proportionate to the U.S. interest? And third, how does the amount correspond to Israel's legitimate requirements?

Let me try to answer these. Israel is the only country in the Middle East with meaningful free elections, a robust and unfettered free press, checks and balances to prevent and correct abuses of authority, extensive equality for women, and other safeguards and rights that are typical of a free society.

It stands in sharp contrast to the other countries of the region, which include monarchies like Saudi Arabia, where all power is permanently concentrated in the hands of 3,000 wealthy relatives, and ordinary people are under constant surveillance by the religious police and internal security forces, and dictatorships like Syria, where the army recently slaughtered 10,000 of its own citizens.

We now see in the United States an energetic campaign by adversaries of the United States-Israel relationship to undermine the ties between the two countries. The method applied is to focus attention exclusively and relentlessly on any aspect of Israel which puts the Jewish State in a negative light and thus to erode the relationship.

Israel, although a vibrant democracy, has like the United States itself, unsolved social problems. But it is in any honest accounting one of the great success stories of the democratic experience in the modern world. Not one of the Arab countries whose interests the anti-Israel propaganda seek to promote has anything approaching the standard of democratic rights and civil liberties which Israel maintains.

In a wider perspective, Israel compares quite favorably to the other recipients of United States aid in the Middle East, Northeast, Southeast and South Asia, Africa, the Caribbean and Central America.

UNITED STATES STRATEGIC DIMENSION INTEREST IN ISRAEL

The United States interest in Israel also has a strategic dimension. Israel is our only reliable and effective ally in the Middle East and one of only two in the eastern Mediterranean. It sits in a vital position midway between Europe and the Persian Gulf and has offered to the United States air and naval bases which others have declined to provide.

It has played a critical role in cementing closer United States relations with Egypt by relinquishing the Sinai at great economic cost and strategic risk. It has stopped the drift of Lebanon into the Soviet orbit, dealing a vital blow to international terrorism at the same time. It has helped prevent Syria from invading Jordan in

1970 and again in 1980. Securing a pro-American Government in that country, its actions have helped to make the Mediterranean Basin and the Middle East heartland secure against Soviet expansionism.

Israel also helps the United States in the sphere of military preparedness. Israel's air force and navy are a significant factor in the East-West balance in the Mediterranean. Israel's actions against the Soviet-supplied Syrian SAM's in Lebanon have dealt a vital blow to conventional weapons systems on which Moscow spends more than it does on all land-based nuclear weapons.

The political-military information Israel provides to the United States makes a major contribution to United States intelligence. The strategic value of Israel to the United States is substantial. Compared to its moral and strategic value, the cost of aid to Israel is small. Fiscal year 1984 aid to Israel will be less than 1 percent of the size of the United States defense budget. It will be less than one-thirtieth the amount we spend on NATO and European security. It will be a fraction of the cost of our support to the security of South Korea.

Moreover, unlike many allies, Israel seeks no commitment of United States combat forces on its behalf. All of the aid requested for Israel is spent within the borders of our country.

I conclude, Mr. Chairman, that aid to Israel is one of the most cost-effective security expenditures made by the United States. From the point of view of Israel's needs, it is important to recognize that net aid has declined rapidly in recent years, due to inflation and to the growing burden of debt service on past loans. As you can see in this chart, net aid in constant dollars has declined by 65 percent in the past 9 years and is now about one-third the former level.

At the same time, Israel's needs have continued to increase as larger quantities of more modern arms have gone to Israel's enemies at an accelerating rate. Some people, looking at last summer's fighting between Israel and Syria, have concluded that Israel need no longer fear an Arab attack. But this conclusion is misleading. The summer conflict in and over Lebanon between Israel and Syria is but a small piece of the picture. In the future, Israel must be prepared to defend herself against a much wider threat than just one Arab country.

In the 1973 Yom Kippur War, 11 Arab countries contributed armed forces. Syria has mostly Soviet weapons, but other Arab States have superior systems provided by Western countries. Syria itself is rearming at an alarming rate, and Israel must also take account of the possibility of a direct Soviet threat.

SOVIET RAPID INTERVENTION FORCES

The Soviet Union now has seven airborne divisions much more capable of rapid intervention than they had in 1973. People forget that the Arab aggregate now has almost as many tanks and combat aircraft as NATO that Israel is a tiny country of 4 million which must prepare against this threat and fight on its own.

This chart shows the military balance. Israel faces a much greater imbalance than that facing NATO in Europe and that facing the

South Koreans. In my full written statement, which I have provided you, background material on these questions is provided. And I have also provided you and the committee staff a booklet on the strategic value of Israel to the U.S. Air Force.

Let me conclude by observing that, as polls taken in 1983 show, the general American public is favorably disposed toward Israel and Americans agree that aid to Israel serves the national interests of the United States. As you consider the foreign aid appropriations bill before you and the Israel account in particular, it is important to note that net aid for Israel has declined by 65 percent in real terms over the past 9 years while Israel's importance to the United States remains essential.

I urge this subcommittee and the full committee to vote in favor of an appropriate portion for Israel in the context of our whole foreign aid effort and furthering U.S. interests in the region and worldwide. Thank you.

[The prepared statement of Mr. Dine follows:]

PREPARED STATEMENT OF THOMAS A. DINE

EXECUTIVE DIRECTOR

AMERICAN ISRAEL PUBLIC AFFAIRS COMMITTEE (AIPAC)

Thank you, Mr. Chairman, for the opportunity to testify before this distinguished committee. Appearing with me are Mr. Douglas Bloomfield, AIPAC's Legislative Director and Mr. Steven Rosen, AIPAC's Research Director.

The American Israel Public Affairs Committee (AIPAC) appreciates the opportunity to express our views on the proposed Foreign Assistance Appropriation bill for FY 1984 and the state of U.S.-Israel relations.

AIPAC is a domestic organization of Americans who value strong ties between our country and Israel. On our Executive Committee sit the presidents of the 38 major American Jewish organizations representing more than four-and-one-half million members throughout the United States.

As this committee considers the foreign assistance appropriation for Israel for FY 1984, it faces three essential questions. First, how does assistance to Israel serve the national interest of the United States? Second, is the amount proposed proportionate to Israel's legitimate requirements and to the national interest of the United States? And third, are the objectives of the aid program consistent with the wider objectives of U.S.-Israel relations and U.S. diplomacy in the Middle East? I would like to take this opportunity to provide pertinent background for your deliberations on each of these three issues.

1. How does assistance to Israel serve the national interest of the United States ?

The United States has both a moral and a strategic interest in Israel. Israel is the only country of the Middle East with meaningful free elections, a robust free press, checks and balances to prevent and correct abuses of authority, extensive protections for the rights of individuals and minorities, basic equality for women, and other safeguards and rights that are typical of a free society. It stands in sharp contrast to the other countries of the region, which include feudal monarchies like Saudi Arabia, where all power is permanently concentrated in the hands of a few wealthy princes and the ordinary people are under constant surveillance by the religious police and internal security forces, and dictatorships like Syria, where the government recently slaughtered 10,000 of its own citizens.

We now see in the United States an energetic campaign by enemies of the U.S.-Israel relationship to undermine the moral ties between the two countries. Their method is to focus attention exclusively and relentlessly on any aspect of Israel which puts the Jewish state in a negative light, and thus to erode the relationship. Israel, although a democracy, has, like the United States itself, some unsolved social problems. But it is, in any honest accounting, one of the great success stories of the democratic experience in the modern world. None of the Arab countries, whose interests the anti-Israel propagandists seek to promote, has anything approaching the standard of democratic rights and civil liberties which Israel has maintained. Aid to Israel is based on a common Judeo-Christian and democratic heritage that is virtually unique in a world of imperfect nations and imperfect alliances. In a wider perspective, Israel compares quite favorably to the other recipients of United States aid in the Middle East, Northeast Asia, Southeast Asia, South Asia, Africa, the Caribbean, and Central America.

Alongside the moral tie between the two nations, the United States' interest in Israel has a strategic dimension. Israel is our only permanent ally in the Middle East and one of only two in the eastern Mediterranean. While we enjoy, for the moment, good relations with a number of other countries in the region, these are based on alliances with unelected ruling elites in societies where the ordinary person has no special love for the United States or for the Western world. As we learned in Iran, such alliances with autocratic and unstable elites can be ended by the next coup or revolution, or we can be thrown out by rulers attempting to hold on to power by appeasing radical opinion. In Israel, by contrast, the ordinary citizen, and the leaders of all major parties, conceive their own interests as part of the Free World. The alliance between the United States and Israel is, therefore, above all a bond between the peoples of the two countries, and it will endure long after these other "friends," who are really temporary allies of convenience, are gone.

The strategic value of this alliance to the United States derives from Israel's geographic position in a vital area of the Mediterranean and the Middle East midway between Europe and the Persian Gulf, and from Israel's own strength and effectiveness as the most powerful state in the region. President Reagan has emphasized that the "paramount American interest in the Middle East is to prevent the region from falling under the domination of the Soviet Union." In this regard, Israel's strength has played a critical role in four cases:

Egypt - Israel's willingness to relinquish the Sinai, at great economic cost and strategic risk, has helped to wean Egypt from the Soviet Union and to cement closer U.S. ties with Cairo.

Lebanon - Israel stopped the drift of Lebanon into the Soviet orbit by driving the Syrians and the PLO out of Beirut, thus allowing a pro-Western government to come to power and creating a new opportunity for creative American diplomacy.

Jordan - Israel has twice helped the United States to prevent Syria from invading Jordan, thus enabling a pro-Western government to remain in power in Amman.

Terrorism- Israel has dealt a vital blow to international terrorism, eliminating its global headquarters in Lebanon and capturing thousands of terrorists operating from there against other countries around the world.

As a result of these Israeli actions, the eastern Mediterranean region, which once looked like fertile ground for Soviet adventurism, is now evolving toward stable relations with the Western world. Thanks largely to the actions of Israel, the Mediterranean basin is now virtually an American lake, with the exceptions of Syria and Libya. This basic point has not escaped the attention of Moscow, which understands better than some in the West the profound strategic value of Israel to the United States.

Beyond these cases, Israel is an important strategic asset for the United States, providing significant assistance to our defense and intelligence establishments. Currently, Israel helps the United States in the following ways:

* Israel provides the United States with intelligence on Soviet equipment and on Soviet-allied forces in the Middle East, and is prepared to provide more.

* Israel has demonstrated the vulnerability of Soviet SAMs and interceptors in Lebanon, which may force the USSR to divert large sums in Europe from force expansion to force renovation and replacement and has also discredited the weapons on which much Soviet influence depends.

* Israeli air and naval forces are sufficiently strong to challenge Soviet naval forces in the eastern Mediterra-

nean, and are thus a significant factor in assessing the East-West naval balance of power in that region.

- * Israel has provided considerable combat data on the performance of American military equipment, allowing the United States to correct problems and to incorporate improvements without risk to American lives.
- * Israel has developed equipment and tactics which have subsequently been adopted for use by the American military.
- * Israel has directly aided in the improvement of American weapons by developing improvements subsequently adopted by the United States and by funding such programs in the United States.

But the United States has not yet exploited the full strategic advantage of cooperation with Israel. If the United States adopted a systematic program of strategic cooperation, as proposed but suspended a year ago, the areas of potential gain could include the following:

- * Israeli hospitals could save American lives by caring for the large number of American wounded likely to result from a Persian Gulf war; indeed, no other solution is presently visible.
- * Israel has offered to protect American lines of communication in the eastern Mediterranean in a crisis, thus freeing American aircraft for use elsewhere.
- * Israel has offered to make available air fields and ports to support American military deployments in the Mediterranean and the Middle East.
- * Israel could be used as a storage site for prepositioning of fuel, ammunition, and equipment for use by American forces sent to the Middle East.
- * Relatively modest assistance from the United States and an agreement on strategic cooperation could expand significantly the value of Israel as a naval ally.

But with or without these additional steps, cooperation with Israel greatly enhances America's strategic position not only in the Middle East and the Mediterranean but indeed throughout the world.

Overall, then, the United States has both moral and strategic interests in Israel, and the program of assistance for FY 1984 which is before you serves both. It is a reflection of our concern for the security of Israel, in that it helps Israel to offset the massive quantities of arms that are flowing from most of the world's major production lines to countries hostile to Israel. Aid is also a reflection of our strategic interests, in that it helps our one permanent ally in the region to maintain its strength as an asset in the broader strategic arena.

2. Is the amount proposed proportionate to U.S. interests and Israeli needs?

Aid to Israel has declined considerably in real terms and in proportion to U.S. aid commitments worldwide over the past few years. Still, it remains a substantial figure. A continuing concern of Congress is how to determine the level of aid that is appropriate in light of the national interest of the United States and in terms of what is necessary to support the security of Israel.

The central purpose of aid to Israel is to ensure the security and survival of a vital ally whose strength is an asset in the wider international security system. The ultimate purpose of assistance to Israel is essentially similar to the reason we keep troops in Europe and Korea and a naval presence in the western Pacific: to enhance international security by deterring aggression and ensuring the defense of important friends and allies. To determine whether our assistance to Israel is proportionate to U.S. interests, the appropriate measure is therefore an assessment of the costs and benefits compared with other major expenditures on international security.

FY 1984 aid to Israel will be less than 1% the size of the U.S. defense budget, under one-thirtieth of our expenditures on NATO and European security, and a fraction of the cost of our support to the security of Korea. Moreover, unlike many allies, Israel seeks no commitment of U.S. combat forces on its behalf. In light of the important role Israel plays in regional and international security, which we have outlined, aid to Israel is one of the most cost-effective security expenditures made by the United States.

Moreover, a considerable portion of the cost of our aid to Israel is offset by direct economic benefits to the United States. Israel is a substantial net importer from the United States, spending on civilian imports alone about twice what it receives in economic assistance. Every dollar of aid is spent within the borders of the United States, and a major portion of the total consists of loans on which Israel has an excellent record of repayment. According to Peter McPherson, Administrator of AID, every billion dollars of U.S. aid translates into 60 to 70 thousand jobs in the U.S.

But the benefit to the United States goes beyond the aid process itself. For example, when Israel defeated the Syrian's Soviet-supplied SAM and air defense systems in Lebanon, it implicitly dealt an important blow to one of the largest and most important elements of the Soviet and Warsaw Pact military buildup in Europe. The Soviet Union spends more on its SAM system in Europe than it does on its entire land-based nuclear weapons complex. If we add to the surface-based air defenses its expenditures on the MiG-21 and MiG-23 interceptors, which Israel also defeated, it spends more on combined air defense than it does on its entire Navy. Over time, the effect of Israel's actions will be to force the Soviets to spend considerable sums on altering and replacing important parts of this huge system. This means a significant diversion of Soviet defense expenditures from force expansion to force replacement, and from expenditure on offensive systems to spending on a defensive one. While the results for the United States will not be visible immediately, the implicit effect is to reduce by billions of dollars the Soviet defense buildup which the U.S. must match.

Similarly, Israel's combat experience will over time affect billions of dollars in U.S. defense expenditures, although here again the full effects will take some time to unfold and will not always be visible to casual observers. In the current period of rebuilding the United States armed forces to meet the growing Soviet challenge, each of the new systems we acquire involves hundreds of millions or billions of dollars in research, development, procurement, operations, and maintenance costs. If Israel's combat experience in Lebanon alters only 5% of this activity--and its experience in 1973 altered a good deal more--these savings alone, in the form of diverting expenditures from less effective solutions to combat proven alternatives--will have an economic benefit to the United States comparable to the total cost of foreign aid.

These are but two examples. If we could give a dollar value to the other areas in which Israel is a strategic asset to the United States, such as the value of its air and naval contributions to the Mediterranean balance and its role in securing pro-Western governments in Egypt, Lebanon, and Jordan, it would be clear that the total gain for the United States greatly exceeds the cost of aid.

The current level of assistance to Israel is thus easily justifiable in terms of the national interest of the United States. The next question is how it compares to Israel's legitimate requirements in terms of the goals of the aid program.

The primary reason Israel needs assistance from the United States is the enormous cost of maintaining a military balance. Israel is a small state of four million people with a GNP of $21 billion which must somehow defend itself against the relentless hostility of confrontation states with 30 times the population and ten times the GNP. Saudi Arabia's defense budget alone exceeds Israel's total GNP. The combined defense budgets of just five Arab states (Syria, Iraq, Jordan, Saudi Arabia, and Libya) are five times that of Israel.

The people of Israel are proud and determined to be responsible for their own defense. Unlike many other countries, they do not intend today or ever to ask American soldiers to provide their protection for them. They also contribute the economic cost of their own defense to the limit of their capabilities, spending a much greater portion of their resources on security than the United States, Europe, or Japan. But Israel is not capable of matching the unlimited expenditures of the Arabs and the Soviet Union. United States aid is essential to maintaining a stable military balance.

Israelis are deeply grateful for the substantial support that the United States has provided over the past decade, and are well aware that the United States above all countries has stood by them during this difficult period. We Americans, both Jewish and Christian, who care about Israel share this feeling and a great pride that our nation has honored its tradition of standing by a vital ally. I come before you today to express our thanks to the Congress.

However, we are also concerned by the unhappy reality that net aid to Israel is declining rapidly due to inflation and the growing burden of service on past loans, while the accumulation of arms by hostile countries continues to accelerate and Israel's vital needs therefore grow. This is leading to a widening gap between Israel's legitimate requirements and the aid that is available from the United States each year.

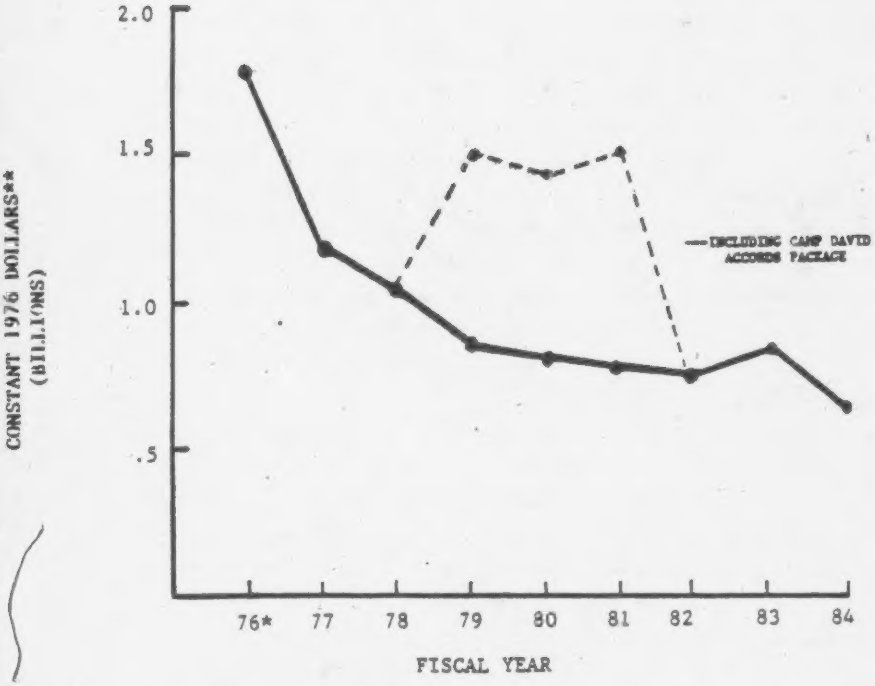
The fact that net aid to Israel has declined significantly in real terms is not widely understood. In FY 1976, the Congress appropriated $2.214 billion and Israeli debt service on past loans totalled $376 million, leaving a net aid balance of $1.838 billion. For FY 1984, the Administration has proposed $2.485 billion, but debt service to the United States government will be $1.15 billion, leaving a balance of $1.335 billion in net aid. Taking inflation into account, the package before you is equivalent to $661 million 1976 dollars, a decline of 65%. As you can see in Figure 1, net United States aid to Israel has declined over the past nine years, and is now about one-third the former level in real terms.

FIGURE 1.

NET AID TO ISRAEL

Annual grants and loans less debt service

ADJUSTED FOR INFLATION



* EXCLUDING TRANSITIONAL QUARTER FOR COMPARABILITY
** ADJUSTED BY U.S. DOD INFLATOR

BASIS OF COMPUTATION-SEE APPENDIX

At the same time, Israel's need for assistance has continued to grow. It derives, above all, from the necessity to maintain a military balance against an Arab coalition which is receiving ever-larger numbers of more sophisticated arms. Because of its direct relevance to the question of Israel's need for aid, I would like to devote a few minutes to an assessment of the military balance.

Some people have concluded from Israel's successes against the Syrians in Lebanon last summer that Israel need no longer fear an Arab attack and that Israel now has all the arms it needs for self-defense. This perception, although widespread, is erroneous and misleading, because the balance between Israel and Syria in Lebanon is but a small piece of the picture, for several reasons:

(1) In 1982, Israel had to fight only a portion of the forces of one Arab country. In the future, Israel must be able to defend itself against a much wider threat, like that of 1973 when eleven Arab countries contributed forces.

(2) Syria is one of the few remaining Arab countries which gets most of its weapons from the USSR. Many Soviet systems are less capable and more vulnerable to Israeli countermeasures than the Western-supplied systems that are now entering the arsenals of other Arab countries, such as the Saudi F-15s which can easily outperform the Syrian MiG-21s.

(3) Syria itself is now in the midst of a major modernization and rearmament, reportedly including a satellite data link connecting Syrian air defense to a control system in Moscow. The Soviets are introducing new countermeasures at a feverish pace, to ensure that Syria will fare better in any future round of fighting.

(4) Israel must take account even of the Soviet Union itself as a potential threat. Russia now has seven airborne divisions whose troops and equipment could be introduced rapidly into a Middle Eastern conflict. It also has several thousand military personnel already on the ground in Syria.

Above all, Israel is forced to plan, not only for the situation that exists at a given moment, but for the more demanding situations that could come about over a ten year time horizon. If the Arab League is divided today, this can change rapidly, as it does from time to time, and Israel may face a much larger coalition than is apparent at the present time. Taken together, the Arabs pose a formidable threat, possessing collectively almost as many combat aircraft and tanks as NATO (e.g. 1,912 jets compared to NATO's 1,986 in Central and Northern Europe). The long lead-time on aircraft and tank procurement makes it necessary for Israel to plan against this larger threat today.

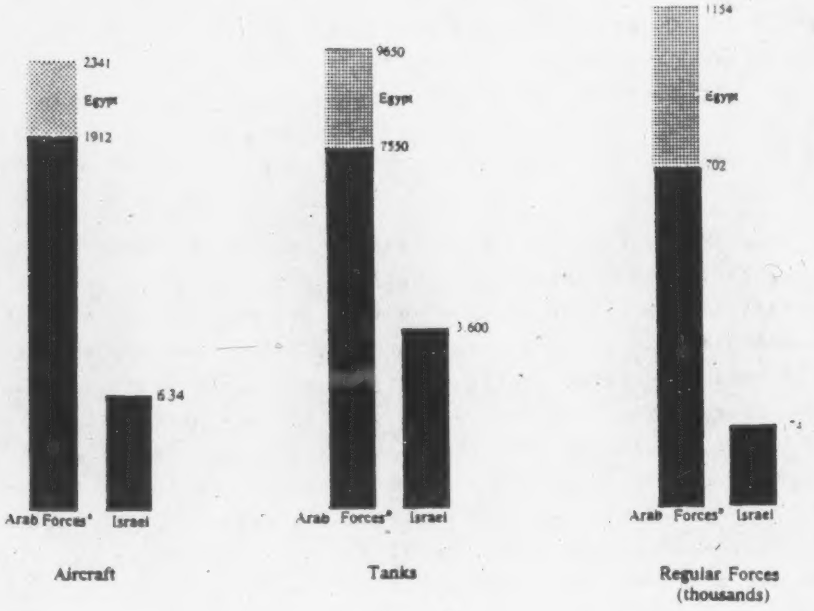
In the wider strategic perspective, Israel operates on a narrow margin of safety, with the certain knowledge that the first war it truly lost would be the last. As Figure 2 shows, Arab military forces have a substantial quantitative advantage over those of Israel, averaging a ratio of about three-to-one. For example, Israel has about 634 aircraft against the Arabs' 1,912 (2,341 counting Egypt), and 3,600 tanks compared to the Arabs' 7,550 (9,650 if Egypt is included) counting only those Arab countries able to send forces. This is a quantitative disparity considerably larger than that faced by NATO in Europe or by South Korea, and it forces Israel to take extraordinary measures to compensate.

Until recently, this quantitative imbalance was offset by important qualitative advantages in Israel's favor, but these too are eroding. Israel can no longer count on having better weapons than those available to the Arabs. For example, Israel now has a total of about 125 advanced-design combat aircraft (F-15s and F-16s), in service or on order. By comparison, Arab countries now have in service or on order more than 160 Western state-of-the-art jets (U.S. F-15s and F-16s, French Mirage 2000s) not to mention the latest Soviet models. If in the future the U.S., as expected, sells to the Arabs another 200 advanced fighters and the French only add 40, by the end of the decade the Arabs will have 400 to Israel's current 125, making it all the more important that the Administration end delays on authorizing the 75 additional F-16s to Israel. Allowing the qualitative balance of airpower to tip in the Arab favor is definitely not in the interest of the United States. If the Arabs are able to compound their advantage in quantity with an advantage in quality, the temptation to resort to force will grow dramatically.

Equally important, there are growing indications that the Arabs are acquiring sophisticated electronic warfare equipment from Soviet and Western sources, as we are now seeing in Syria. Much of the equipment is state-of-the-art, some developed by Western companies with access to highly secret data about the very weapons that are used by Israel.

FIGURE 2

THE MILITARY BALANCE 1983



[a] includes: Algeria, Iraq, Jordan, Kuwait, Libya, Saudi Arabia, Syria--capable of rapid deployment of aircraft.

[b] includes: Eastern Front Arab States: Iraq, Jordan, Kuwait, Saudi Arabia, Syria--capable of sending tanks.

Source: The Military Balance, 1982-1983. London: International Institute for Strategic Studies, 1982

There are other disturbing trends. The growing range and payloads of Arab ground attack aircraft may soon mean that the Arabs will have a deep strike capability against Israel, raising the spectre of a surprise attack in the air. The sheer number and diversity of revolutionary new systems being introduced into Arab arsenals at the same time raises the possibility of technical breakthroughs that will give an unforeseen advantage to the Arabs (as new missiles and radars did in 1973). The shift that is taking place in several Arab states, from Soviet to Western sources of arms, worsens Israel's problems, because most of its countermeasures are designed against Communist rather than Western systems. The very plurality of the arms which Israel now faces, in both numbers and types, raises the danger of a saturation effect, a point beyond which Israel cannot cope. Finally, as noted above, the growing interventionary power of the Soviet Union raises an unprecedented danger of escalation to superpower involvement.

These new problems come on top of some asymmetries which have long characterized the conflict. The Arabs are able to maintain standing armies while Israel relies on reserves, creating favorable conditions for an Arab suprise attack. In the diplomatic context of Middle Eastern wars, Israel is expected to allow the Arabs to fire the first shot, thus conceding the advantage of choosing the time and place of conflict. The Arabs can lose one war after another and come back to fight again, but Israel cannot afford to lose even one. If Israel wins on the battlefield, it is not permitted to translate these results into a peace settlement at the conference table, but must settle for mere cease-fires and begin to prepare for the next round of fighting which the Arabs openly declare is their intention.

In sum, the military balance at this moment may seem favorable to Israel because of the sharp divisions which now characterize the situation in the Arab world. But this advantage is temporary and cannot be the basis of sound planning. The longer-term trends in the military balance are disturbing, and Israel's requirement for U.S. aid to offset these adverse trends remains a vital need. The fact that net aid is declining in real terms does not help the situation.

In conclusion, then, the sum proposed for aid to Israel this year is offset by many advantages accruing to the United States and to Western security, and is one of the most cost-effective expenditures made by the United States in the foreign policy and international security arena. From the point of view of Israel's legitimate requirements, appropriation of the full amount, which actually represents a decline of 65% in net aid after inflation compared to a few years ago, is essential to maintaining a stable military balance. Although the figures before you may seem large in an absolute sense, they are minimal in light of the U.S. interests and vital Israeli security needs that are at stake.

3. How does aid to Israel fit in the wider picture of U.S. diplomacy in the Middle East?

As the Congress turns its attention to the foreign aid package, it also needs to consider three issues in terms of the wider diplomatic/strategic environment of the Middle East: (a) the situation in Lebanon; (b) problems of U.S. arms sales to Israel's enemies; and (c) U.S.-Israel relations in the context of the peace process. I would like to take this opportunity to comment on these three key issues.

Lebanon

Israel's actions in Lebanon provide a vivid demonstration of the convergence of Israeli and American interests in the containment of Soviet expansionism in the Middle East, the elimination of the threat of international terrorism, and the creation of conditions necessary for regional peace and stability.

At the outset of Operation "Peace for the Galilee," Lebanon was in an advanced state of disintegration. It had become effectively partitioned between two Soviet proxies--the PLO and Syria. The PLO's state-within-a-state served as the hub of the international terrorist network. The attacks on Israel from Lebanon provoked Israeli reprisals and thus exacerbated the Arab-Israeli conflict for 12 years. This helped the Arab rejectionists to isolate Egypt and stall the peace process.

Now, Lebanon has the opportunity to reconstruct itself as a stable, orderly, and pro-Western state. Israel's use of force helped create order out of chaos. It destroyed the PLO's infrastructure and removed Lebanon as a source of both regional instability and worldwide terrorism. As a result of the war, Moscow was discredited as an arms merchant, as a superpower protector, and as a party with influence in the region. With the defeat of the PLO and Syria--the most committed opponents of the Camp David Accords--the "moderate" Arabs have an opportunity to pursue a more constructive course.

Israel thus made a substantial contribution to the task of combatting the Soviet Union in the Middle East, at almost no cost to the U.S. The demonstrated superiority of American weapons will impact favorably on the global military balance. On the diplomatic level, the Reagan Administration is seeking ways to exploit the opportunities created by Israel, in an entirely new Lebanese situation.

But, in a distressing reversal of perspective, U.S. diplomacy in Lebanon, instead of working with Israel as a reliable and effective ally, is defining its interests in opposition to those of the state which made it all possible. The Administration has, surprisingly, lost sight of the basic strategic issues, and is instead obsessed with problems of little real significance for the United States.

What is the United States' national interest in Lebanon? It is, first and foremost, to prevent that country from falling back once again under the influence of Soviet-allied forces. Second, it is to strengthen Lebanon's pro-Western government--not necessarily to solve every local problem, but to create conditions under which no challenge to that government by Syria, the PLO, and radical elements within Lebanon, can succeed. Third, it is to bring about peace between Israel and Lebanon, reinforcing both Egypt's position and the peace process. A fourth but probably unattainable objective is to bring about reconciliation between all the diverse factions within Lebanon and to solve its many other social, economic, and political problems.

But what is the Administration doing? It is putting all its effort into the single task of getting Israel out, showing very little concern over the PLO and the Syrian presence. It is opposing peace and normalization between Israel and Lebanon, even though only an alliance with Israel can offset Syrian influence in the country and give the new regime any prospect of long-term survival.

It is doing this on the implausible assumption that, if we only got the Israelis out, the Syrians and the PLO would leave and peace would break out among all the internal factions. In truth, if Israel withdrew precipitously, a more likely result would be chaos, followed by the resumption of the war of each against all, followed by the reemergence of the Syrian and PLO influence.

The first task of U.S. diplomacy should be to secure the removal of the Syrians and the PLO. Former Secretary of State Kissinger recently commented that, "People forget that after Israel's part of this negotiation is concluded, one has to go to the Syrians and see whether they agree. And, if I know anything about the Syrians, they will not accept the results of an Israeli, Lebanese, and American negotiation without a long negotiation by themselves."

Beyond this, why should the United States object to normalization between Israel and Lebanon, and why oppose simple security arrangements in the south, which are all Israel seeks to withdraw? The answer given by Administration officials--that this would impede Christian/Moslem reconciliation in Lebanon and reduce the credibility of the new government in the eyes of Syria and the rest of the Arab world--is not convincing. Recreating Christian/Moslem harmony is like teaching the zebra to fly again: it never happened and never will. Moreover, there is a natural alliance between the Christians of Lebanon and the Western world. Most of the Moslems, who look to the East, have never felt any particular affinity with the United States and Europe. The objective interest of the United States in Lebanon is with the Christians and the Israelis.

As to gaining Syrian acceptance of the Lebanese government, this is a particularly dangerous and erroneous way of describing the U.S. interest. Syria is and seems likely to remain a Soviet ally, a rejectionist state, and an unspeakable tyranny. It has territorial aspirations in Lebanon, has never recognized it as a separate nation, and would destroy the new government there if it could. It is very possible that the Syrians were responsible for assassinating the former President-elect and brother of the current president of Lebanon. The regime in Damascus is a brutal dictatorship which recently killed 10,000 of its own citizens, and it has no strategic or moral reason to feel kindly to the present regime in Lebanon. Premising the future government of Lebanon and U.S. policy in the region on Syrian approval is tantamount to giving a veto to the most intransigent and dangerous actor in the whole situation.

A problem of even greater magnitude but of relatively little interest to the Administration is the growing Soviet military presence in Syria. At this time, SA-5 missiles are being emplaced in Syria which can reach all of Lebanon, northern and central Israel, and deep into Turkey and the eastern Mediterranean. The missiles and the positioning of Soviet troops indicates that the new Soviet leadership has decided not only to expand significantly its commitment to Syria's war-making capability, but also signals its determination to maintain a position of influence in the Middle East heartland. This activity must be viewed as part of the Soviet global strategy in the Middle East reflected in its occupation of Afghanistan, its designs on Iran, and its alliance with Libya. Paradoxically, the Administration is less concerned with the implications of this renewed Soviet activity for NATO and the heightened chance of a superpower confrontation, than with the ejection of its consistent ally, Israel. This is the case even though the Soviet proxies in Lebanon continue to refuse to withdraw.

Another objective of U.S. policy in Lebanon is the establishment of a strong central Lebanese authority which is pro-American and pro-Western. Israel's operation made it possible to join forces with those Lebanese elements who share an organic bond with the United States--namely, the Lebanese Christians and those Moslems favoring a pro-American alignment.

Finally, U.S. policy as it stands ignores Israel's legitimate security requirements in Lebanon. Israel went into that country to wipe out the threat of PLO rockets which held one fifth of its population hostage for over a decade. To withdraw without the necessary security measures would enable terrorists to return to southern Lebanon and threaten to renew the cycle of violence and instability.

Only after progress in Lebanon is decoupled from other problems in the area and negotiations are conducted with a perspective on the wider context of United States strategic interests there--containment of Soviet expansion in the region and the establishment of a friendly Lebanese government--can a realistic solution be reached.

Arms Sales to Israel's Enemies

The Congress will soon face a decision on the sale of advanced fighters and missiles to Jordan. This comes on the heels of major sales to Saudi Arabia and Egypt, which have raised serious problems, and the package that is apparently intended by the Administration for Jordan may prove to be the most troublesome of all.

Today, the Arab states on Israel's borders are engaged in a military buildup larger even than the Syrian-Egyptian expansion of 1968-73, involving a larger number of states, a wider array of suppliers, and far more advanced equipment. Particularly alarming is the role of the United States in fueling this buildup. Whereas, before 1973, the Soviet Union was the most important provider of arms to the confrontation countries, today the United States is the principal supplier to four of the five Arab states closest to Israel, and American weapons will almost certainly play an important role for any Arab coalition attacking Israel in the future. By supplying Jordan and

Saudi Arabia, which have played minor roles in past wars, the United States is encouraging these countries to play a more significant part in any future attack on Israel. If a conflict does occur, this may produce a situation in which U.S. action has exacerbated the Arab-Israeli conflict, and in which the United States will be torn between the two sides.

Jordan stayed out of the 1973 war because it lacked an air defense system, but the United States is now providing one. Saudi Arabia played a secondary role in 1973 (as it did in 1967 and 1948), because it lacked a significant capability for power projection, but the United States is now building up Saudi capabilities in this area. This is contributing to the dynamic of escalation between Israel and these Arab countries. If in the future they get into a war with Israel and do well, we will have seriously hurt Israel; if they fare poorly, they will blame the United States. We are slipping into a no-win situation.

The Administration says it is providing arms to aid these countries against other regional threats, e.g., Saudi Arabia against Iraq, and Jordan against Syria. But the Saudis themselves consider Iraq an ally and they are providing aid to Baghdad to buy more arms. Jordan will never have the capability to match the far larger Syrian army and air force. Neither Saudi Arabia nor Jordan currently deploys its army as it would if it took these threats seriously as the basis for military planning. Instead, both keep the largest part of their armies on the front facing Israel. The Arabs themselves openly state that they are arming against Israel; only in Washington do we hear the fiction that the purpose is all these other threats.

The Administration also says that it is providing arms to the Arabs in support of the peace process. Yet Saudi Arabia continues to reject the Camp David process, is conceded by Administration officials to be less than helpful in Lebanon and, far from encouraging King Hussein to join the peace process, is holding him back.

In the case of Egypt, we proceeded more sensibly, providing arms only after the peace process was well underway. But even here, it is not clear that arms have cemented the ties of peace. Egypt has dramatically slowed the pace of normalization, restricted trade, and recalled its Ambassador from Israel. It has also moved closer to some of the confrontation states, readmitted Soviet technicians, and cut back on strategic cooperation with the U.S. (including cancellation of the second part of Operation Bright Star '82). As the modernization of its army matures with U.S. help, the pressure within the country to rejoin the struggle against Israel may intensify. The poor state of the army has been one of the reasons given for standing back from confrontation; as the U.S. arms flow in, this part of the argument will be weakened.

But the next case to come before Congress is arms to Jordan. King Hussein has still not agreed to sit down to talk, but reportedly has been promised advanced aircraft, mobile I-Hawk missiles, and other equipment as well as training for a Jordanian Rapid Deployment Force, not to mention a host of political concessions. From the point of view of Israeli security, Jordan poses a qualitatively unique problem, because it ~~shares~~ the longest border with the Jewish State and has the airfields closest to key targets. Amman is barely 50 miles from Jerusalem; Jaafar is less than 8 minutes flying time from Eilat; and Mafrak is less than 100 miles from Tel Aviv. These conditions make Jordan the state best positioned to spearhead a surprise attack against Israeli airfields and cities. The placement of advanced jets with fast scramble times, excellent ground attack capabilities, and accurate weapons delivery systems in Jordan will force Israel to take strong defensive measures if Jordan is part of a situation of escalating tensions. American arms to Jordan may worsen relations between the two countries instead of advancing the peace process, eroding the modus vivendi which has enabled them to avoid serious conflict for the past 16 years.

To prevent embarrassment to the Administration later, it is important for the Congress to let its views be known now, before notification of the sale is sent to Capitol Hill, that arms to Jordan are unwarranted until King Hussein actually joins serious negotiations. This means not only direct talks, but a substantive position that goes beyond mere posturing. We cannot conduct our Middle East diplomacy solely on the basis of trying to meet every Arab demand to curry their favor. Arms to Jordan at this point simply do not make sense.

The Peace Process and U.S.-Israel Relations

Finally, this is an appropriate occasion to review the overall state of U.S.-Israel relations in the context of the peace process. There seems to be general agreement in Washington and in Jerusalem that relations are seriously strained and may in fact be on a collision course. But there is also agreement that the moral and strategic bonds between the two countries are vital to the interests of both. What can be done to stop the deterioration and get back on a constructive basis?

Administration officials are placing the blame on Israel. They argue that only changes in Israel will improve the situation. But the direction in which the Administration itself is headed is a major part of the problem, and much could be done on this side of the water to move in a more positive direction.

The Administration has been pursuing a policy premised on and obsessed with conflict with Israel. High Arab officials visiting Washington have been treated royally, including in recent weeks, the Kings of Morocco and Jordan and the President of Egypt. Saudi princes are the object of particular devotion and genuflection. By contrast, visiting Israeli officials are given the cold shoulder, and Prime Minister Begin is not even allowed to come to discuss the problems that exist.

The President's own regard for Israel is said to be favorable. I believe this. Yet, he has not taken a single major initiative in two years in office which would reasonably be described as helping to improve the relationship. Although the Administration denies that it considers massive pressures an appropriate way to deal with an ally like Israel, it has in fact invoked more sanctions over a longer time period than any preceding Administration, including: suspending for over a year now the agreement on strategic cooperation; refusing to complete the sale of F-16s which its own specialists have confirmed are necessary to offset the massive quantities of arms going to various Arab countries; holding up approval of technology transfers for the Lavi aircraft; and, most importantly, sending and then leaking to the press menacing notes to the Prime Minister of of Israel implying that the entire relationship may be in question. Recently, the Administration has hinted darkly that still more sanctions lie ahead.

Some in the Administration are constantly advising the President that, if only he "cracked down" on Israel, the core problems of the Middle East could be solved. This is a dangerous illusion. Israel is a proud and independent country. As the world knows, it is quite able and committed to defend its vital interests, and it is simply unrealistic to imagine that any arrangements can be arrived at in negotiations between the United States and the Arabs, and then somehow imposed on Israel. Progress toward peaceful coexistence in the Middle East requires working with Israel, instead of treating her as an adversary while consulting intimately with those who would destroy her.

The Administration's behavior is convincing an important minority in Israel that the United States is not a reliable ally, and that they must be prepared to go it alone. This loss of confidence is destructive to the long-term interests of both countries and it could, if things get worse, force Israel to consider what it will do if it is completely isolated while the Arabs continue their military buildup.

It is also a profound mistake to premise U.S. policy on a change of government in Israel. Israel is a democracy in which the people choose their own government. Menachem Begin is the people's choice to be Prime Minister, and it is time to stop mocking and maligning him and to begin according him the respect to which he is entitled as the democratically elected leader of our only permanent Middle Eastern ally. If the people of Israel decide to change their government, that is their decision to make. But, if Washington persists in a policy that it imagines will "save Israel from herself," it will find that the Israeli reaction is to save herself from the United States. Moreover, key elements of the Administration's approach are unacceptable, not just to the Likud government, but to the great majority of Israelis of all parties, including Labor.

A realistic American policy is one that works with Israel, not against her. The Administration must stop conducting guerrilla warfare against Israel on the front pages of our daily newspapers. The United States should strive to restore the mutuality of the relationship and correct the harm that has been done by past pressures, not sink deeper into the quagmire.

Clearly, it is time for the United States, and especially the Reagan Administration, to lift its eyes from the lesser problems of the Middle East, many of which have little real consequence for the United States, and to return to the essential strategic realities of the region which affect vital American interests. In the past 24 months, Israel has driven two Soviet clients--the PLO and the Syrians--out of a major Arab capital and saved Lebanon for the United States and the West; relinquished the Sinai, helping to cement the bond between the United States and Egypt; and delivered a major blow to the reputation of Soviet arms, on which Moscow's influence in much of the world depends. Yet, to listen to some of the President's top advisors, all of this is insignificant compared to an argument over the exact security arrangements that are desirable in southern Lebanon.

When a partnership is strained, it is not enough for one side to call on the other to make all the changes. Nor is it constructive to focus obsessively on the differences, and to ignore the common interests. Much can be done in Washington, now, to improve a relationship that is much more significant for the long-term interests of the United States than many of the countries being so ardently pursued today.

CONCLUSION

This is a time of trial in the U.S.-Israel alliance, but also a time of creative opportunity. The moral bonds between the two countries are strong and secure, and have recently been reaffirmed by the American people in a series of public opinion polls. The strategic relationship is, in spite of obstacles, growing in importance, though there is great potential for future cooperation to enhance the position of both countries and the Western world in general.

The aid package before you can make an important contribution to these ends. It represents a significant decline in net aid in real terms compared to past years, and I urge this Committee to make the necessary adjustments to help Israel maintain a stable military balance under difficult circumstances.

Beyond aid, there are serious strains in the relationship that can be overcome in a spirit of dialogue and compromise. The first necessity here is consultation, with a recognition that the relationship serves the vital interests of both parties.

APPENDIX

NET AID TO ISRAEL

Annual grants and loans less debt service

ADJUSTED FOR INFLATION
$ Million

FISCAL YEAR	TOTAL LOANS & GRANTS	DEBT SERVICE	NET AID (aid minus debt service)	INFLATION INDEX **	NET AID ADJUSTED to INFLATION
1976	2,214*	376	1,838	100	1,838.0
1977	1,742	440	1,302	107	1,214.0
1978	1,791	561	1,230	115	1,067.6
1979 incl. Camp David	1,790 2,790	680	1,110 2,110	133	834.6 1,586.0
1980 incl. Camp David	1,786 2,786	590	1,196 2,196	149	802.2 1,473.0
1981 incl. Camp David	1,985 3,185	680	1,305 2,505	167	781.4 1,500.0
1982	2,185	810	1,375	182	755.5
1983	2,485	910	1,575	195	808.1
1984	2,485	1,150	1,335	202	661.0

*Excludes Transitional Quarter for comparability
**Adjusted by U.S. DOD price deflator

STRATEGIC IMPORTANCE OF ISRAEL TO UNITED STATES

Senator D'AMATO. Thank you very much, Tom.

As you are well aware, this committee, Senator Kasten, Senator Inouye, myself, and others have, despite considerable opposition, successfully fought to bring more aid to Israel. We are well aware of her strategic importance in the region and her importance to the United States not only in military terms but morally, et cetera.

I share concern and interest regarding the circumstances surrounding the massacre, the slaughter of approximately 10,000 citizens that took place in Syria by Syrian troops. I think it is interesting to note that the Syrian Government has not appointed any commission to investigate the matter. Are you aware of any action by the Syrians to pursue this?

Mr. DINE. No, sir.

MASSACRE OF 10,000 SYRIANS

Senator D'AMATO. Let me ask you this. Was there any international commission that you are aware of from any responsible world group that sought to set an inquiry into the massacre of the 10,000 Syrian citizens?

Mr. DINE. None whatsoever.

Senator D'AMATO. Isn't it interesting that where there is a massacre of that proportion, we might understand why the Syrians would not want to look into it but not a single international body has focused on this senseless slaughter.

Mr. DINE. I can remember, Mr. Chairman, being with an assistant secretary at one point, and on my left is Doug Bloomfield, who heads our legislative staff, and we brought this point up to this Assistant Secretary of State, and he replied, well, I do have a double standard, he said, and there is in the world a double standard.

But I have come to the conclusion that I will accept that double standard, and we will try to be better citizens of this country or the world or whatever, and we will just have to deal with that as it comes along.

Senator D'AMATO. Thank you very much for your testimony.

Mr. DINE. Thank you, sir, for all your support.

LIBERTY LOBBY

STATEMENT OF ROBERT M. BARTELL, CHAIRMAN, BOARD OF POLICY, LIBERTY LOBBY

OBJECTIVES OF FOREIGN AID POLICY

Senator D'AMATO. Mr. Robert Bartell, chairman of the board of policy for Liberty Lobby.

Mr. BARTELL. Good morning, Senator. Mr. Chairman, I appreciate the opportunity to testify before this committee because we feel that without doubt it is the recommendation of this committee that will influence Congress as to how much the United States will give in foreign aid this coming fiscal year.

Mr. Chairman, any debate over foreign aid raises the question why? We hear arguments from many idealists that foreign aid should be completely altruistic, directed at helping other peoples without regard to American interests. On the other side of the coin we hear arguments from realists that the United States must always act or should always act in accordance with its perceived interests when dispensing foreign aid.

The objectives underlying our foreign aid program have been stated as being to contribute to the security of the United States, at a minimum to deter political instability and military aggression around the globe, and to help build a world in which American values and basic institutions can flourish; in addition, to strengthen the American economy by building markets abroad and developing markets of supply and to help the less fortunate abroad in keeping with American moral or humanitarian values.

Today, the question must be asked and answered, how effective has foreign aid been in achieving these objectives? To place foreign aid in historical perspective, one must recall that in the 17th and 18th centuries Western powers such as England and France furnished troops, food, and money to their allies in exchange for military manpower to protect their mutual interests.

In addition, they did not overlook the somewhat direct device of the out-and-out bribe. France, for example, spent 82 million livres in order to purchase the favors of Austrian statesmen in the 18th century. The first U.S. Congress, in fact, in 1789 included in its earliest appropriations a modest contingency fund for just such discreetly administered foreign aid.

Professor Hans Morganthau of the University of Chicago argued in 1962 that bribery as an instrument of diplomacy was not dead today, merely disguised. He stated that much of what presently goes in the name of foreign aid is in the nature of bribes:

> The transfer of money and services from one government to another performs here the price paid for political services rendered or to be rendered. Such transfers are justified in terms of foreign aid for economic development, and money and services are transfered through elaborate machinery fashioned for genuine economic aid. But in the process, these bribes are a less effective means for the purpose of purchasing political favors than were the traditional ones.

Morganthau goes on to state:

> Old-fashioned bribery was a relatively straightforward transaction; services were to be rendered at a price, and both sides knew what to expect. Bribery disguised as foreign aid for economic development makes of giver and recipient actors in a play which in the end they may no longer be able to distinguish from reality. In consequence, both may come to expect results in terms of economic development, which in the nature of things may not be forthcoming. Thus both are likely to be disappointed, the giver blaming the recipient for his inefficiency, and the recipient accusing the giver of stinginess and asking for more. The ideology, if taken for reality, gets in the way of the original purpose of the transaction, and neither side believes that it has received what it is entitled to.

COST TO UNITED STATES OF FOREIGN AID

Now, for the past six decades beginning with the furnishing of loans to foreign countries during World War I, the United States has accumulated a vast experience in dispensing foreign aid as the world's largest donor. This experience had reflected the shifting assumptions of foreign policy through successive administrations.

While estimating the actual costs of foreign aid is difficult, it should be noted at this point that such costs are equal to the amount of resources transferred by the United States to foreign countries. These transfers are paid for by U.S. taxes, public borrowing, or some combination of the two. And from 1946 through 1981 U.S. economic and military outlays, as indicated by the AID summary for overseas loans and grants, were $296,500 million, exclusive of such loans as the Export-Import Bank and other international lending institutions.

If each year's outlays were to be converted to 1981 constant dollars to avoid adding dollars of widely differing values, the total for this 36-year period would be more in the neighborhood of $450 billion. Taking it a step further in my written testimony, I refer to Senator Jesse Helms and his contention that total foreign aid outlays for the same period totaled more than $2 trillion.

The list of countries receiving United States foreign aid since World War II is enormous, and it extends into every quarter of the globe, including Western and Eastern Europe, Asia, Africa, Latin America, and Oceania.

RESULTS OF MARSHALL PLAN

The results of foreign aid have been sometimes successful, more often disillusioning, and occasionally tragic. During the immediate post-World War II era, the Marshall plan enabled Western Europe to effect a remarkable recovery, but the success of the Marshall plan has been frequently invoked in support of foreign aid in the Third World to promote development programs. This analogy fails completely. We must face the fact that in postwar Europe the task was not development but reconstruction.

Foreign aid has gone to those who in the end have used it against us and weakened our national interests in various parts of the world. It has been supplied to governments such as Tanzania, whose policies accelerate poverty and retard economic development by collectivization of agriculture, the eviction of productive minorities and the confiscation of foreign enterprises.

CURRENT CHANNELS FOR U.S. FOREIGN AID

American funds through multinational agencies have flowed to hostile states such as Cuba at a time when the United States Government was protesting Cuban intervention in El Salvador. Our aid has frequently gone to both sides in armed conflicts such as Ethiopia and Somalia, Morocco and Algeria, India, Pakistan. It has gone to recipient governments such as Israel with little regard to their political and military conduct in regions of economic and strategic importance to the United States.

These countries, in turn, have even dispensed aid to others to serve their own interests rather than those of the United States. Economic aid has gone to such countries as India to finance socialist enterprises. An often quoted political argument in favor of foreign aid is that without large-scale aid, Third World countries would throw in their lot with the Soviet Union.

This argument, however, lacks substance. More often than not, American foreign aid has helped bring to the fore governments hostile to the market system and openly sympathetic to the Soviet Union. As Professor Morganthau pointed out, foreign aid has often aroused resentment of the recipients, who do not receive as much as they want or feel they are entitled to. Many recipients are vehemently critical of U.S. and American values.

The themes of their rhetoric include the specter of American imperialism and accusations of alleged economic domination. They accuse the United States of responsibility for the inequality of world income distribution, poverty, and even starvation. Some spokesmen for these countries have even gone so far as to demand changes in international law that would make it a legal obligation of industrialized countries such as the United States to give foreign aid and a legal right of developing states to receive it.

When joined together in the same room, the harangues by representatives of developing countries at international gatherings castigating the United States for selfish neglect would lead one to believe that the United States had turned its back on international development and had never donated $1 in foreign aid.

POLITICIZED LIFE IN DEVELOPING COUNTRIES

The increasingly politicized life in countries receiving foreign aid, reinforced by the enlargement of the government sector, has intensified conflicts and antagonisms within and between countries. Foreign aid, therefore, would appear to have failed in promoting internal harmony in these countries, let alone regional or global stability and solidarity.

On balance, the majority of the political and security concerns that have faced the United States since World War II have erupted in the developing areas of the world. At present, United States foreign policy is preoccupied with China, the Central American republics, Iran, Afghanistan, and Lebanon. The volatility of the Persian Gulf region, which contains vital world oil supplies, and southern Africa with its strategic mineral resources, dictates the need for an active and precise United States policy toward the countries of these regions.

Pragmatism would seem to demand that priority be given to those American foreign aid programs which afford the highest security and economic benefits to the United States.

President Eisenhower said almost 30 years ago, "The United States cannot be an Atlas; it cannot, by its financial sacrifices, carry all the nations of the world on its own shoulders, and we should stop giveaway programs."

EFFECT OF FOREIGN AID ON U.S. BUDGET

A critical review of our foreign aid is therefore absolutely essential at this time of overall reductions in the Federal budget as we face the consequences of the economic recession at home. American aid often has been a significant proportion both of the Federal budget deficit and of the U.S. current account, notably in such periods as 1977 and 1978 when the weakness of the dollar exacerbated the problem.

We need a far more critical attitude toward aid transfers abroad. The claims of those who advocate foreign aid so strongly and who believe it to be our moral obligation must be questioned clause by clause, sentence by sentence. It is they who should be made to defend what they advocate, not we, to defend why we should reduce programs that afford us no returns.

We must always remember that foreign aid has no popular constituency. We must pursue answers to the question, How effective has foreign aid been in achieving our national objectives? We must seek these answers in the context of the economic situation prevailing in the United States, when American taxpayers are being urged to tighten their belts, while certain so-called allies have not been asked to practice fiscal restraint, when important domestic programs have been reduced or even eliminated, and when our defense needs must constantly be reexamined to the levels of what we can afford.

It is time for recognition that we should reestablish our priorities and that budgetary limitations should be applied to all categories of spending.

Mr. Chairman, to be strong overseas, we must be sound at home. Our national commitment is not the mere survival of the United States; rather, it also must be dedicated to the restoration of our economic strength and maintenance of a strong defense and assistance to Americans who need it.

I thank you very much for the opportunity to present our views.

Senator D'AMATO. Thank you, Mr. Bartell.

[The prepared statement of Mr. Bartell follows:]

PREPARED STATEMENT OF ROBERT M. BARTELL
CHAIRMAN, BOARD OF POLICY
LIBERTY LOBBY

March 10, 1983

Mr. Chairman and Members of the Committee:

I am Robert M. Bartell, chairman of the Board of Policy of LIBERTY LOBBY. I appreciate this opportunity to appear today and present the views of our more than 30,000-member Board of Policy, as well as approximately a million readers of of weekly newspaper, The SPOTLIGHT. Undoubtedly this subcommittee's recommendation will influence Congress as to how much money the U.S. gives away in foreign aid next year.

Mr. Chairman, in 1824 Charles Dickens described Washington, D.C. as "the city of magnificent intentions." Well, it hasn't changed very much. I think now, as then, our intentions are laudable but our priorities are somewhat suspect.

Foreign aid, of course, is the transfer of Western taxpayers' money to foreign governments and to official international organizations. As Peter Bauer, the economist, once pointed out, it's been a major accomplishment of the "aid lobby" to secure the term "aid" for these fund transfers.

From modest beginnings soon after World War II, the foreign aid lobby has grown into one of the most powerful pressure groups in the world, perhaps the most powerful one. It now comprises the international financial organizations, one or more government departments in every Western country, an articulate export interest, international banks, academics, media men, churchmen, associated professionals and professional humanitarians.

The linch pin of the advocacy of foreign aid that external handouts are necessary for emergence from poverty is probably untrue. If it were true originally very poor individuals, societies and countries could not have progressed from backwardness and penury to comfort and prosperity without foreign aid. Yet they have done so in the distant as well as in the recent past in the West and in the Third World. If foreign aid were necessary for development, there would be no developed countries today; indeed, the world would still be in the Stone Age.

Much of the Third World progressed extremely rapidly in the 19th and 20th centuries, long before foreign aid was invented, notably in Southeast Asia, much of the Mideast, Africa and Latin America. In many of these areas hundreds of thousands of originally extremely poor immigrants advanced from destitution to prosperity within a few decades, the Chinese of Southeast Asia being perhaps the most striking instance.

Economic achievement depends on people, including governments. It depends on man, his culture and his political arrangements. People's attitudes, aptitudes, motivations and mores, and the policies of their governments also count; however, they do not depend on external dôles.

No country or society ever required foreign aid for its development. And this is as true in the Third World today as it was in the West. We feel that when the prerequisites of economic progress are present in a country, the necessary funds will be generated locally or they can be borrowed abroad. And when they're not present, development aid is ineffective and therefore wasted. There's no way out of this dilemma.

When one talks about foreign aid the first question that comes up, of course, is what about relief of Third World poverty? Well, this declared objective of aid differs altogether from development, the same as alms to a beggar or help to a cripple differs from scholarships to promising youngsters or loans to start up a business. In fact, official aid has nothing to do with relief of poverty, distress or starvation.

Aid doesn't go to the skeletal figures you see in slick magazines and potbellied children so familiar in aid propaganda. Aid goes to the rulers and in the Third World few of them are much concerned with the poorest of their people. According to Peter Bauer, at the London School of Economics, three arguments for aid are aimed directly at businessmen, particularly chief executive officers:

According to the first of these, aid benefits the donor countries by promoting exports and therefore activity and employment. Some exporters may indeed benefit if aid recipients buy their products but exports bought with aid, that is taxpayers' money, are in effect given away. A corporation does not prosper by giving away its money in the hope that the beneficiaries will spend some of it on its products. A burglary will not benefit a store even if some of the loot is spent in it. If more government spending can really boost the economy, the appropriate course is to spend more at home.

The second argument is that foreign aid is necessary to contain the spread of communism and keep the Third World out of the Soviet orbit. But aid does not promote prosperity in the Third World and in any case, the appeal of communism does not depend on the level of income. Witness the large communist parties in France and Northern Italy. Nor is aid generally helpful to American and Western political strategy. About one-third of Western aid goes through the international organizations, such as the World Bank, International Monetary Fund (IMF), etc. In distributing this aid they are not permitted to consider the political interests of the Western donors even if they wish to do so, which is doubtful.

In practice, the political interests of the West are rarely served by direct government-to-government aid. Much of this aid goes to countries of no political or military significance. And many recipients are openly hostile to the U.S., as evidenced, for instance, by their record in the UN and in other international gatherings. And as an organized and articulate group, the Third World is always hostile to the West, even though as a group it is a progeny of Western aid.

Mr. Chairman, it is now being urged that further aid is required to prevent large scale default by Third World countries on their debts to the international banks, which would allegedly do much damage to the financial system of the world.

Actually, the big Western banks, cheered on by their governments, took in surplus OPEC funds for years--petro dollars--and lent them to developing nations. Fueled by the oil billions and greased by instant communications, it was the biggest explosion of loans in history. Some $2 trillion in loans are outstanding, about $650 billion of them to the Third World nations. But even if the loans were much higher, taxpayers' money should not be used to bail out the large international banks.

It is foreign aid, official foreign aid, which has brought about the Third World as a pressure group. In practice the Third World is the aggregate of countries, the governments of which, with few exceptions, demand and receive Western aid. This is the only unifying and common characteristic of these utterly diverse and often mutually antagonistic or even openly hostile countries of Asia, Africa and Latin America, which have come to be lumped together as the under developed world and now as the Third World.

In the Washington Times (Dec. 10, 1982), Patrick Buchanan asks President Reagan whether he would place the prestige of his administration behind every institution of the old order. Will Reagan become attorney of record for the Rockefeller-Kissinger-Richardson wing of his party? Will he put his hand into the fire to retrieve the blazing chestnuts of the Trilateral Commission and Walter Wriston's bank? Or will he side with the populist conservatives and attempt to reconstitute his bipartisan coalition with the battle cry of "America First"? Buchanan says that with that $1.2 billion bridge-loan to Brazil, when Reagan made his Latin American tour, the president signaled an intent to lead the bailout of the banks.

The money dished out from the American treasury will be spent to make good the questionable loans of City Bank and Chase Manhattan. It represents, when all is said and done, a transfer of dollars from taxpayers to bankers, a transfer of bad Brazilian paper from bankers to taxpayers.

The IMF now wants a 50% increase in its general fund to $100 billion, and a 200% increase in its special bailout fund to $20 billion.

Our government has been asked for $199.4 million as a loan to the People's Republic of China to modernize and expand port facilities. Back in 1961 President Kennedy called for a decade of development in which the world's poor nations would at last make substantial progress toward prosperity.

Well, now we've had two decades of development and we're about to enter the third. In the last 10 years alone, the U.S. has provided nearly $60 billion to the developing countries, some $43 billion in bilateral development assistance and $14 billion in contributions to the multilateral development banks.

Now despite this record and the record of other industrialized nations, many people feel that these sums are inadequate; in fact, in his final address to the World Bank last year, Robert McNamara said "the former Secretary of State (Cyrus Vance) called the U.S. performance disgraceful and I agree with him." Of course this sentiment is echoed by many Third World leaders who call for massive new transfers of resources from the industrialized to the developing nations.

Fortunately, Mr. Chairman, Congress appears to see things differently. The foreign assistance program is now moving into its third straight year on fiscal 1979 funding.

If development assistance is to survive during a period of budgetary stringency, it will require fundamental re-examination and revision. There are grave and justified doubts about the entire strategy underlying development assistance. Why should the U.S. provide government-to-government aid that confirms centralized governmental control of resources in the developing nations?

Many developing nations are confronted with the crushing burden of public sectored debt for which higher and higher levels of capital transfers must be provided simply to meet the interest charges. When centralized governments adopt economically unsound policies as they often do, in the course of accumulating these debts the result is a spiral of bankruptcy, austerity and instability.

Self sufficiency and food production is not going to be achieved by nations which in order to pacify urban populations hold food prices so artificailly low as to make it unprofitable to grow food. No amount of foreign aid can compensate for ill-conceived and fundamentally flawed policies.

As Theodore W. Schultz, professor emeritus of economics at the University of Chicago, says, the record of foreign aid since World War II contains more failures than successes. We have not been able to achieve the goal of equity in the U.S. in our efforts to help the small farmer, yet somehow we expect Kenya or Nigeria or Tanzania or others to achieve this for their farmers.

The fact is, they simply can't. What they need above all is to get more production and thereby enhance welfare. Most governments discriminate against the farmer and in favor of city consumers. In Nigeria, for example, says Dr. Schultz, the government prices the farmer's products so low that he can't afford to modernize his farm. The aim is to keep food prices in the cities down because that's where the political power is.

Now foreign aid is predominantly a public activity in which governments deal with each other. So farm people and low income countries have virtually no direct contact with international donor agencies. And for all practical purposes they have no influence in what these agencies do that affects their well-being and their ability to produce crops. Donor agencies meanwhile tend to generate a lot of false, bad news to win more financial support. They exaggerate the extent of malnutrition that exists. Much of the information they give out is suspect.

On May 18, 1982, your colleague Sen. Jesse Helms (R-N.C.) addressed this body on the question of U.S. foreign aid. He relayed a question a constituent asked him, "How much, including interest on the money borrowed by the U.S. government to finance the program, has our foreign aid program cost the American taxpayers?" He went on to give the answer, and I suggest that the distinguished presiding officer hold on to his hat:

$2,304,257,900,000 from American taxpayers!

Says Senator Helms, "Bear in mind the precise question that was asked of me, how much, including interest on the money borrowed by the U.S. government to finance the program, has our foreign aid program cost the taxpayers?" The senator says that he has a friend in North Carolina who insisted correctly that any honest assessment of the cost would necessarily include the interest, because the federal government was running a deficit almost every year and therefore was in effect borrowing the money it was giving away to foreign countries.

To be very technical in the context in which an economist would put it, the present cost of past expenditures equals the nominal dollar amount plus the compound interest that would have been earned in the financial markets. Today's cost includes alternative uses of those funds over the intervening period.

The senator goes on to make this point: These programs would be expensive even if the federal government were operating on a balanced budget. But when Congress approves enormous deficits and when interest on the borrowed money is compounded year after year, the real costs of federal programs soar into the stratosphere.

I commend to this committee Senator Helms's complete presentation carried in the May 18, 1982 Congressional Record. Some of the information he provided for the edification of his colleagues includes the foreign aid list that notes $23 billion for Vietnam and more than $2 billion each for Laos and Cambodia. Obviously, more than money is needed to keep nations from falling into communism.

The senator's tabulation also includes $2.8 billion for communist Yugoslavia and lesser millions for communist Poland, Hungary, Czechoslovakia, East Germany and even the Soviet Union itself. The senator said that foreign aid has even been given to oil rich OPEC nations and to an assortment of primitive nations whose chief delight seems to be hurling insults at the U.S.

Foreign aid has often been given to both sides in the endless parade of wars--Indian-Pakistani, Ethiopian-Somalian, Israel and Egypt, Algeria and Morocco and so forth. Aid is supplied to governments whose policies accelerate poverty, such as when they nationalize agriculture, expel productive minority groups and destroy free enterprise.

The senator makes a very good point. He says if the amount of foreign aid is based on a nation's poverty level, you can be sure that many petty tyrants will work to deepen their people's poverty.

Our foreign aid, of course, has also financed foreign industry. In Japan and Taiwan, South Korea and Hong Kong, it is foreign industry which now undersells our own.

Mr. Chairman, foreign aid evolving over the generations of the postwar period has become, with some exceptions, an overtly self-serving function of the U.S. government. In almost every instance we give aid where we think it will do us some good. We withhold it elsewhere. Now we can differ about both the ends and the means but in the case of foreign aid any debate would be without resolution. But nobody seriously contends that our foreign program is pursued for reasons purely altruistic.

As I mentioned earlier some of the foreign aid is given to countries which consistently vote against us in the UN. It was interesting to read in the Journal of Commerce not too long ago that a State Department official said that the U.S. intends to keep a tally on how countries vote in the UN and to use the votes as a yardstick when it comes time to distribute foreign aid and technical assistance. It will be interesting to see if this develops.

In any event, Mr. Chairman, the U.S. is without doubt the No. 1 giver and lender of the world, having dispensed approximately $300 billion in foreign aid since the start of World War I. (There will never be agreement on the precise amount because of inconsistencies in government accounting and the problem of secret unreported aid distributed by the CIA.) It is money that helped defeat Germany in two world wars, contained the Soviet Union in the cold war, cured some of the ill, fed some of the starving, built highways, trained technicians, sustained democracies and dictatorships, won permission to maintain military bases abroad, killed guerrillas and taught them to kill, supported the UN and its agencies, precipitated or prevented changes in foreign governments, stationed men and women of the Peace Corps in remote villages, stimulated a population explosion and then tried to control it. All this and a thousand other things were inconceivable but a few decades ago.

The results of foreign aid were sometimes triumphant, more often disillusioning and occasionally tragic. No chapter in the history of American behavior on the world stage is so complex or revealing. I refer the committee to the April/May 1978 issue of American Heritage for the article "What We Got for What We Gave: The American Experience with Foreign Aid."

The basic argument is still, "Why plunder our national treasury for foreign governments while we have needy Americans?" The usual rejoinder that "we must protect American interests around the world" has lost most of its meaning in our calamitous conduct of foreign policy. Foreign aid won't stop the spread of communism and in some instances may even finance its growth. Foreign aid won't allow us to guide the destiny of foreign nations no matter how sincere our intentions. We give Israel fully half of all the foreign aid we dispense so lavishly, and it didn't prevent the invasion of Lebanon and its ensuing massacre. It's not preventing Israeli expansionism today.

Mr. Chairman, the American people are weary of a sick economy. They are hopping mad about escalating taxes. They see our country writhing in the throes of bitter recession and then they see a profligate Congress continue aid to foreign countries with their tax dollars. We sincerely believe it's time to return to a policy of "America First."

Thank you again for the opportunity to appear today and present our views.

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NATIONAL ASSOCIATION OF ARAB AMERICANS

STATEMENT OF DAVID J. SADD, EXECUTIVE DIRECTOR, NATIONAL ASSOCIATION OF ARAB AMERICANS

ACCOMPANIED BY:

NEIL LENDEMANN, COORDINATOR FOR RESEARCH PROGRAMS
CHRISTINA HAMMOND, COORDINATOR FOR GOVERNMENT AFFAIRS

SUCCESS OF FOREIGN AID POLICY IN MIDEAST

Senator D'AMATO. Mr. Sadd, David J. Sadd, executive director of National Association of Arab Americans.

Mr. SADD. Mr. Chairman, I have with me Neil Lendemann, who is our coordinator for research programs, and Christina Hammond, who is our coordinator for government affairs.

The National Association of Arab Americans [NAAA] appreciates this opportunity to testify today. We are concerned that however good and honorable our intentions and the intentions of the U.S. Congress, that our aid programs are not encouraging stability in the Middle East; on the contrary, they are inadvertently contributing to the violence and devastation that has characterized the region.

It is time that American aid to all nations be contingent upon behavior which is compatible with America's national interest. You have received copies of my written testimony.

Senator D'AMATO. Yes; we have.

AREAS OF CONCERN

Mr. SADD. In my oral testimony I will comment on three principal areas of concern: the supplemental appropriation for Lebanon; the administration's recommended assistance levels for Egypt, Jordan, and the West Bank and Gaza; and a critical issue, we believe, facing this committee and American policymakers, which is the link between our foreign aid and the political responsiveness of the countries receiving that foreign aid.

With regard to the supplemental appropriation for Lebanon, this year President Reagan has requested a supplemental appropriation of $251 million for war-devastated Lebanon. It is a step which we warmly welcome.

Lebanon has suffered billions of dollars of damage in its long civil war. The civil war pitted many elements of Lebanese society against the other and involved foreign forces: the Syrians invited in by the Lebanese Government to end the bloody civil conflict and the Palestinians driven from their homeland in Palestine ultimately to Lebanon, where they placed great strains on the delicate socioeconomic balance in Lebanon.

The Israeli invasion of Lebanon caused billions of dollars of damage in a few brief months. By every standard, we believe Israel should pay reparations to the Government of Lebanon or American aid to Israel should be diverted to Lebanon. We urge that the Congress increase the amount of economic and military aid to Lebanon and recommend that aid to Lebanon be extended in the same proportion of grants and loans as is proposed for Israel and that loans carry the same favorable 30-year/10-year grace period terms.

With regard to Egypt, Jordan, and the West Bank and Gaza, we support the administration's proposal of economic and military aid to Egypt. We urge that Congress consider extending a larger portion of the foreign military sales aid to Egypt.

Senator D'AMATO. Excuse me just for a moment. We have got a debate going on the floor. We will have a short recess at this time.

[Recess.]

EXTENDED AID TO LEBANON

Mr. SADD. You may not have heard the last point. I will repeat it.

Senator D'AMATO. Yes, please. Thank you.

Mr. SADD. We recommend that aid to Lebanon be extended in the same proportion of grants and loans as is proposed for Israel and that loans carry the same favorable 30-year/10-year grace period terms.

With regard to Egypt, we support the administration's proposals of economic and military aid to Egypt. Again, we urge that Congress consider extending a larger portion of its foreign military sales aid to Egypt in the form of grants and recommend comparable ratios of grants and loans as is given to Israel.

EXTENSION OF AID TO JORDAN

With regard to Jordan, the friendship between Jordan and the United States has been long and enduring, despite the differences that exist between the two countries. Jordan is an indispensable element in any efforts to secure a just and lasting peace. We again urge that aid to Jordan be extended in the same proportion of grants and loans as is proposed for Israel and that loans carry the same favorable 10-year grace period terms. Let me explain, if I may.

Senator D'AMATO. I understand about the repayment schedule, so why don't you continue?

WEST BANK AND GAZA

Mr. SADD. With regard to the West Bank and Gaza, the small program funding of economic and social development of the West Bank has tremendous impact on the people living there who are under such a burden. We think that the $7 million is rather miniscule, and certainly urge that there be every attempt to alleviate the suffering of these people by raising the money allocated to the West Bank and Gaza.

ISRAEL

With regard to Israel, and I would like to in this context mention that we are getting into the crucial question which must be addressed if we hope to promote a Middle East peace, the linkage of our aid to political performance of all the recipients. And here, we must be looking at the linkage of our aid to the political performance and policies of Israel.

We oppose the disproportionate amount of military foreign aid going to Israel and particularly the tremendously high level of military aid.

I have heard some comments claiming that aid to Israel has been dropping in real terms. And I am afraid, looking at the numbers, I fail to understand that. I would like to point out that aid to Israel has risen at a rather alarming rate in the last 10 years. In 1972 we were at a $475 million aid level. Now we are in the $2.5 billion aid level. That is a 500-percent increase.

And the grant portion of that aid has risen from $57 million to $1.5 billion. That is a 2,600-percent increase in that 10-year period.

Second, I would like to point out in the context of military aid that we have given $15.5 billion. Now, in all the years before 1972 we only gave $1 billion in military aid. That is just an alarming rate of increase.

And finally, I must point out that of the total aid we have given to Israel, $20.6 billion only 17 percent of it has been repaid.

I would like to move on by again suggesting our massive aid to Israel and the rapid escalation of that aid has not contributed to peace. It has not contributed to Israeli policies, which are responsible and responsive to us.

The fundamental objective of our organization is a Middle East negotiated peace. We think three ingredients are essential: a Lebanon free from all foreign forces; a homeland for the Palestinians and the West Bank and Gaza to provide fulfillment of the national aspirations of the Palestinian people; and finally, American use of leverage of its massive economic and military aid to Israel to force Israeli cooperation in the achievement of a negotiated peace.

We have many times in the past urged such a linkage. After the bombing of Lebanon and Iraq in the summer of 1981 we ran a full-page ad in the Washington Post. And we called on the Congress to act now. I quote, we said, "Unless Congress acts now, the level of Israeli terror will rise further."

Congress did not act then. The Golan Heights annexation followed. Shootings of Palestinians on the West Bank followed.

In the spring of 1982 we distributed a research alert to every member of Congress. A copy of it is appended to our testimony today. It was titled "High Risk of Israeli Invasion of Lebanon." We called on the Congress to warn Israel that this kind of thing would be linked to our aid. There was no warning. Israel invaded Lebanon. Thousands of people were killed, wounded, made homeless.

Again, there was no linkage. The massacre followed. Israel is now an occupying force in Lebanon. While the world community has stood in condemnation of this invasion and massacre, the Congress still has not linked our aid to political performance.

Senator D'AMATO. Your time is up, but please continue.

Mr. SADD. And still we put more teeth in the President's Middle East initiative, linking political performance to obtain withdrawal from Lebanon, freeze on settlement activity. We do not believe there will be peace.

I would like to close with the quote from a distinguished American, made in a letter to one of his constituents. And I think he sets an example for all American elected officials:

My interest is only in the promises we have made to defend Israel against attack. To that end, I promise you even at my advanced age I will volunteer for service to do that. But I will not permit the United States of America, my country and your country, to continue to furnish supplies for Israel to murder, massacre, and destroy civilizations only because of the whim of what I consider to be one man, and that man's name is Begin. I am an American, and I am also a man who is part Jewish and extremely proud of that part. But I am an American, and I think that explains where I stand on this whole thing. Sincerely, Barry Goldwater, United States Senator.

Mr. Chairman, I thank you for this opportunity.

[The prepared statement of Mr. Sadd follows:]

NATIONAL ASSOCIATION OF ARAB AMERICANS

Prepared Statement of David J. Sadd

EXECUTIVE DIRECTOR

The National Association of Arab Americans welcomes the opportunity to present testimony to this Subcommittee concerning the Middle East portion of the Administration's Fiscal Year 1984 foreign aid request and the Fiscal Year 1983 supplemental request. As representatives of the more than 3 million Americans of Arab descent across the United States, the National Association of Arab Americans and its members are deeply concerned that American tax dollars be spent in such a way as to promote U.S. interests in the Middle East most effectively by encouraging peace and stability in the region and contributing, within the limitations of severe budgetary constraints, to the economic development of our friends.

We need not remind members of the Subcommittee that whatever levels of foreign aid assistance may be appropriated, they will reflect United States values and priorities and will be so interpreted by the rest of the world. The U.S. has always had a strong moral commitment toward promoting respect for human rights throughout the world and our foreign aid program has traditionally been utilized as one means of observing that commitment. Indeed, Congress has adopted legislation which prohibits foreign aid from being granted to any country which "engages in a consistent pattern of gross violations of internationally recognized human rights," and it is vital that we adhere to this legislation to preserve our credibility.

It has become clear to a large and growing segment of the American people over the past year that, however good and honorable our intentions, American foreign aid, or at least that portion of American aid that is going to Israel, is not encouraging stability and peace in the Middle East. On the contrary, it has inadvertently contributed to the unspeakable violence and devastation that has characterized the region over the past year.

By donating billions of dollars of aid to Israel without holding it accountable for its actions in the Middle East and elsewhere, we are enabling Israel to pursue policies that damage America's national interests and jeopardize the peace process. By extending billions of dollars of military aid to Israel annually, we are contributing to a widening of the military imbalance in the region that only encourages Israel to settle by military means those issues which it ought to be settling at the negotiating table.

Our generosity to Israel is even more striking when it is compared to the conditions and requirements attached to extending military and economic aid--even cash military sales--to the Arab World. Discussions on aid or arms sales to Arab friends and allies have routinely elicited determined efforts, particularly within Congress, to require specific concessions from them. All too frequently the American people are told that we can only bring Israel to the negotiating table if we supply it with enough arms and aid to make it willing to bargain. It is claimed, on the other hand, that the Arab countries can only be brought to the bargaining table by imposing pressure on them through the withholding or limitation of aid. This tendency to extend the carrot to Israel and the stick to our Arab friends does not contribute to the search for peace.

Our great nation has demonstrated over the years its commitment to preserve the security of Israel. We submit, however, that the United States should have equal concern for the security of our friends and allies in the Arab World. The Israeli invasion of Lebanon has made clear that Israel's neighbors have every reason to fear Israel's military preponderance and its proclivity to wield disproportionate and irresponsible force against them whenever it wishes to do so.

It is time, Mr. Chairman, that American aid to all nations, including Israel, be contingent upon behavior which is compatible with America's national interests. The United States has traditionally not hesitated to withhold aid to foreign nations that have pursued policies held to be either incompatible with our national interests, disruptive of our foreign policy or in violation of the high ideals that our nation and people hold most dear. It is time that Israel be held to the same standards to which we require all other countries to adhere. [Amplifications of this point may be found in Appendix A, which includes an interview with former President Gerald Ford and articles by Jody Powell, George Ball and Joseph C. Harsch.]

In the past two years, the National Association of Arab Americans has, on numerous occasions, protested against specific Israeli actions which have been disruptive of the peace process or in violation of international law. On each occasion we have urged that continued aid to Israel be made contingent upon cessation of such activities. Among the actions to which we have objected are: the destruction of an Iraqi nuclear research facility in June 1981, the bombing of Beirut in July 1981 (which left 300 people dead), the annexation of the occupied Syrian Golan Heights in December 1981, the invasion of Lebanon in June 1982, the siege of West Beirut, the categorical rejection by the Israeli Government of President Reagan's Middle East peace initiative, the increase in Israeli settlement activity in the occupied territories and the massacre at the Palestinian refugee camps of Sabra and Shatila, which took place at the very least because of the "indirect responsibility" of the highest Israeli officials.

Israeli settlement policy in the territories occupied since 1967 has become a central issue in the quest for peace in the Middle East. President Reagan's peace initiative outlined on September 1, 1982, reiterated the provisions of Security Council Resolutions 242 and 338 that call for withdrawal from occupied territories in exchange for peace. The U.S. has taken the position that prior to a final negotiated settlement, the Palestinians in the West Bank and Gaza must be allowed to practice self-government for a transitional period. In order that this can be made possible, Israel must eventually desist from actions that "create facts" in the territories or create conditions that would make Israeli concessions difficult in negotiations for an overall settlement.

President Reagan's peace plan spelled out this position clearly in a statement in which he said, "The United States will not support the use of any additional land for the purpose of settlements during the transition period." The President then called for "the immediate adoption of a settlement freeze by Israel," as this could "create the confidence needed for wider participation in these talks. Further settlement activity is in no way necessary for the security of Israel and only diminishes the confidence of the Arabs that a final outcome can be freely negotiated." [The problems surrounding Israeli settlement policy are illustrated in Appendix B, which includes articles by Meade Thorpe, Jr. and Anthony Cordesman, an article on former Presidents Gerald Ford and Jimmy Carter and a background paper by the National Association of Arab Americans.]

These Israeli actions and others have embarrassed the Reagan Administration and often been harmful to the conduct of American foreign policy in the region. In the aftermath of Israel's tragic and unjustifiable invasion of Lebanon, for example, an invasion which left nearly twenty thousand Lebanese and Palestinians dead--most of them civilians--and many tens of thousands of others wounded or homeless, the United States has been forced to rush millions of dollars in humanitarian aid to Lebanon in order to help it recover from a war which was conducted largely with American military equipment and financed with funds made possible through massive infusions of American economic assistance. As the President's supplemental request for Lebanon makes clear, it will be necessary in the future to supply hundreds of millions of dollars in additional assistance to Lebanon in order to help it recover from the devastation it has suffered.

Our interest in this issue is not academic, Mr. Chairman. Many of our members, both Lebanese and Palestinian, have lost friends or relatives in Lebanon in the past year.

The United States has, moreover, been forced to send American troops to occupied Lebanon in order to help provide the conditions necessary to achieve the withdrawal of all foreign forces--particularly Israeli forces--from that beleaguered country. We need not remind this Subcommittee that one American soldier was killed in Lebanon last year by the explosion of a cluster bomb that had been used by Israel in its invasion, despite supposedly solemn assurances that such weaponry would not be used in an offensive war. [See Appendix C for information on Israeli use of cluster bombs in Lebanon.] We need not remind this Subcommittee either that there has recently been a series of confrontations in Lebanon between Israeli occupying forces and U.S. Marines or that Secretary of Defense Caspar Weinberger recently declared, quite correctly, that the latest incident, in which a U.S. Marine refused to let Israeli tanks into American-patrolled territory, was "basically damaging to the President's efforts to secure peace in the whole area." [For details of the confrontations between Israeli soldiers and U.S. Marines, see Appendix D.]

Israel's belligerency in Lebanon has also brought the United States into yet another round of seemingly endless negotiations, this time to end Israel's military occupation of Lebanon. Last year at this time, the National Association of Arab Americans warned this Subcommittee that Israel was poised to invade Lebanon and that it was prepared to do so despite the fact that the cease-fire arranged by U.S. Special Envoy Philip Habib in July 1981 was being generally adhered to by both sides. We submitted to this Subcommittee a research alert prepared by our organization entitled "High Risk of Israeli Invasion of Lebanon" and urged the Congress to act on the matter at once. Unfortunately, our warnings were not heeded. [See Appendix E for research alert.]

Had Israel been willing, the cease-fire, which called for an end to hostilities across the Lebanese-Israeli border, would have held indefinitely and progress could have been made in the search for Middle East peace. Instead, Israel chose to use the pretext of the dreadful assassination attempt on the life of the Israeli Ambassador to the United Kingdom as an excuse to lay waste to Lebanon. As this Subcommittee knows, the assassination attempt was not carried out by the Palestine Liberation Organization, as Israel claimed, but by a group that had carried out assassination attempts on both Israeli and PLO targets in the past.

Now, following the invasion, negotiations to secure a withdrawal of Israeli troops from Lebanon are dragging on and on, with no sign of success. This is a gigantic step backward, paid for by the lives of thousands of people. As this Subcommittee is doubtlessly aware, less than one month ago President Reagan observed that "there's a certain moral point that we think the Israelis are neglecting or not observing," namely, that the new government of Lebanon has asked all foreign forces to leave and therefore Israel is "technically in the position of an occupying force."

The negotiations to secure withdrawal of foreign forces from Lebanon, moreover, are sidetracking U.S. efforts to settle the overall Israeli-Palestinian dispute. When President Reagan introduced his Middle East peace initiative last September, he gave a needed and valuable impetus towards settling that dispute. As the President stated so eloquently in his address to the nation, the problem is to find a way "to reconcile Israel's legitimate security concerns with the legitimate rights of the Palestinians." Moreover, as recently as February 23, 1983, President Reagan indicated that we "can't go on with these people in not providing something in the nature of a homeland."

Unfortunately, the President's initiative has been categorically rejected by Israel. The government of Prime Minister Menachem Begin has clearly stated that it will never relinquish the West Bank and it has greeted the President's call for a cessation of new settlements with a defiant and frenetic increase in settlement activity, presumably as a prelude to outright annexation of the occupied territories. [Israeli and Arab responses to President Reagan's Middle East peace initiative may be found in Appendix F.]

The President's Middle East initiative was greeted much more favorably in the Arab World. The Fez Summit Conference last September put forward a unified Arab set of peace proposals that took the President's initiative into account and implied recognition of Israel's right to exist. Following the Fez Conference, Jordan's King Hussein and Palestine Liberation Organization Chairman Yasser Arafat held a series of meetings aimed at building mutual cooperation and formulating a common stance on Middle East issues. These positive developments need to be encouraged and nurtured.

One way to encourage such developments would be for Congress to give unmistakable and concrete support for President Reagan's Middle East peace initiative. Confusion has arisen on the part of many countries as to what extent the President can rely on the Congress for support of his initiative. This confusion was reinforced during the lame-duck session of the previous Congress, when a significant increase in grant aid to Israel was approved in a continuing resolution over the express objections of the Reagan Administration.

The President's Foreign Aid Requests.

It is apparent from the Administration's foreign aid request that the primary beneficiaries in Fiscal Year 1984, as in Fiscal Year 1983, are Israel and Egypt. Although the total amount of assistance to Israel and Egypt are somewhat similar (approximately $2.5 billion for Israel and $2.3 billion for Egypt, including PL 480 food aid), assistance for Israel is far more generous. Under the terms of the Administration's proposals, Egypt, with a very low per capita GNP of only $650, will receive a sum of approximately $51.80 for every Egyptian. Israel, on the other hand, with an extremely high per capita GNP of $4,500 and a high standard of living, will be receiving the enormous sum of $634.60 for every Israeli citizen. There can be no justification for compelling the American taxpayer to provide each and every Israeli citizen with such extravagant doses of welfare when Americans, suffering from high unemployment rates and enormous budget deficits, are being required to tighten their belts back home.

I would now like to comment on several of the specific proposals in the foreign aid request and make recommendations concerning them.

1. Lebanon

We are gratified by the bipartisan support that has arisen in Congress towards dramatically increasing the amount of aid to Lebanon. Successive Administrations and Congresses have been acutely aware of the many problems facing Lebanon and have been sympathetic to the Lebanese and their plight, but they have been unwilling or unable to provide Lebanon with the assistance necessary for it to overcome the debilitating effects that years of civil strife has had upon it.

This year, President Reagan has requested a supplemental appropriation of $251 million for war-devastated Lebanon to help the process of recovery which must take place in the aftermath of the Israeli invasion. While modest in comparison with Lebanon's needs and tiny in relation to the welfare which Israel is provided, the President's request represents a positive step towards helping Lebanon rebuild. It is a step which we welcome warmly.

Nevertheless, if Lebanon is to recover fully from the devastation that it has suffered and is suffering under Israeli occupation, additional sums must be earmarked for Lebanon, and the United States must be willing to maintain these higher levels for some years to come. We strongly urge that Congress increase the amount of economic and military aid to Lebanon. We recommend that, in view of the widespread destruction and economic dislocation inflicted in the past year, aid to Lebanon be extended in the same proportion of grants and loans as is proposed for Israel.

A strong and stable Lebanon is a prerequisite for the achievement of a comprehensive and lasting peace in the Middle East. We support the Administration's efforts to achieve the withdrawal of foreign forces, particularly Israeli forces, from Lebanon. The United States must encourage a process whereby the legitimate Government of Lebanon can become the sole guardians of peace and security in the country. The Lebanese armed forces must be strengthened and consolidated. It is essential that Lebanon achieve national reconciliation so that it can reunify and extend its sovereignty and authority up to its internationally recognized boundaries.

2. West Bank/Gaza

We are gravely concerned that Israeli policies in the West Bank and Gaza are severely undermining the chances for a peaceful settlement of the Israeli/Palestinian dispute. We are particularly troubled at the frenetic increase in Israeli settlement activity in the West Bank, the frequent closures of and interference with academic freedom of Palestinian educational institutions in the occupied territories, and revelations of harassment and mistreatment of Palestinian demonstrators in the occupied territories. [Appendix G includes articles on Israeli treatment of Palestinian residents on the West Bank.] Some of these problems are dealt with in the chapter on Israel and the Occupied Territories in the Country Reports on Human Rights Practices for 1982 recently submitted to the Foreign Relations Committee by the State Department.

The Palestinian Christian and Muslim inhabitants of the occupied territories, who have suffered under almost sixteen years of Israeli occupation, are in desperate need of American assistance, since Israel refuses to meet their needs. The Administration has proposed that $7 million be funneled through private and voluntary organizations (PVOs). This represents a modest increase in aid of half a million dollars, but it is still woefully inadequate.

The Agency for International Development, in its official proposals submitted to Congress, has stated that:

> Evaluations indicate that PVO projects are generally well designed and implemented. The numbers of projects proposed by community groups which are rejected or deferred by PVOs because of funding limitations, indicate a substantial demand for assistance in self-help efforts which is not being met from other sources. The PVOs continue to encounter difficulties in obtaining clearance from the Israeli Government to proceed with individual sub-projects.

The small program funding economic and social development in the West Bank and Gaza has perhaps the highest impact of any American aid project anywhere in the world. We urge that funding for the West Bank and Gaza be increased to $15 million for Fiscal Year 1984 and urge further that the United States Government put increasing pressure upon Israel not to put intolerable obstacles in the way of economic development programs that the Arab people of the West Bank and Gaza need and deserve. A substantial increase in the West Bank/Gaza program can be a symbol of a more constructive relationship between Americans and Palestinians and can reflect the increased emphasis on the Palestinians that the Reagan Administration has begun to display.

3. Egypt

We support the Administration's proposals of economic and military aid to Egypt. Egypt is an important Arab country and has long been a close friend of the United States. It is essential that that friendship continue. We urge that Congress consider extending a larger portion of its Foreign Military Sales (FMS) aid to Egypt in the form of grants.

4. Jordan

The friendship between Jordan and the United States has been long and enduring despite the differences that exist between the two countries concerning the Israeli/Palestinian conflict. Jordan is an indispensable element in any efforts to secure a just and lasting peace in the Middle East. We endorse the Administration's proposals to increase FMS to Jordan and to maintain Economic Support Funds (ESF) for Jordan at the level of $20 million. We urge, however, that aid to Jordan be extended in the same proportion of grants and loans as is proposed for Israel.

5. Israel

We oppose the disproportionate amount of American foreign aid going to Israel in Fiscal Year 1984, particularly in the aftermath of the invasion of Lebanon. Although Israel enjoys the highest per capita GNP of any country in the Near East Region covered by the Administration's foreign aid proposals, it nevertheless will receive a higher amount of aid than any other recipient nation. Given Israel's status as the fourth strongest military power in the world and its unquestioned military superiority in the region, the amount of aid earmarked for Israel is exorbitant.

We note that, while the President has requested the same total amount of aid for Israel in Fiscal Year 1984 as he did for Fiscal Year 1983 ($2.485 billion), the proportion of aid he has asked be extended in the form of grants is substantially higher. The President's Fiscal Year 1984 requests include $260 million of additional ESF grants and $50 million of additional FMS direct financing, for a total of $310 million. This represents a very generous additional concession to Israel. We are opposed to the enormous amount of aid that is provided to Israel and we urge this Subcommittee not to recommend terms that are even more favorable than the President has requested.

Israel must be held accountable for the policies it pursues in the Middle East. Unless the United States is willing to reduce or suspend military aid to Israel when it pursues military policies that violate U.S. laws, including the Arms Export Control Act, Israel will continue to violate those laws. Unless the United States puts Israel on notice that it will reduce its economic assistance if Israel continues to establish new settlements in the West Bank and Gaza and reduce U.S. assistance by the amount of money spent by Israel in the pursuit of those policies, Israel will continue to ignore American condemnations and defy American wishes.

The International Edition of The Jerusalem Post reported earlier this year that Israeli Defense Ministry officials had estimated that the cost of the invasion of Lebanon until March 1983 would be 38.2 billion Israeli shekels, corresponding to approximately $1.44 billion. The same issue reported that the cost of settling each Jewish family in the West Bank is four to five million Israeli shekels, corresponding to approximately $151,000 to $189,000 per family. There are reports that Israel is now luring settlers into the occupied territories by subsidizing housing at prices cheaper than those found in Israel itself. There can be no justification for asking the American taxpayer to finance the invasion and continued occupation of Lebanon or to fund the settlement activity in the occupied territories that is currently taking place. [The question of U.S. aid to Israel is examined in Appendix H.]

U.S. law (PL 94-329) prohibits foreign aid from being granted to any country which "engages in a consistent pattern of gross violations of internationally recognized human rights." Many of the Arab inhabitants of the occupied territories have been subjected to a pattern of deprivation of their human rights by the Israeli Government and the Israeli occupation forces. We strongly urge the U.S. Congress to withhold economic and military aid to Israel when such rights violations occur in order to discourage Israel from continuing these unlawful practices.

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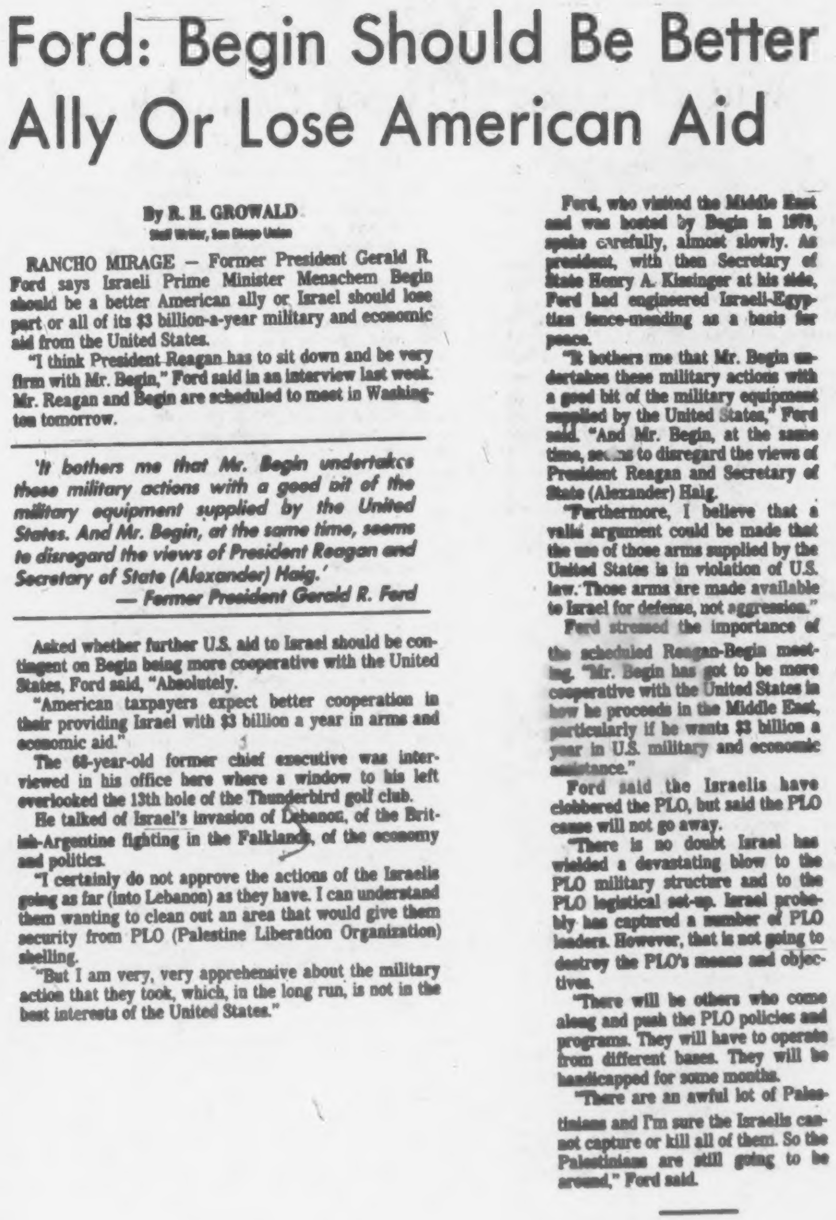
Appendix A Part 1

THE SAN DIEGO UNION Sunday, June 20, 1982



Ford: Begin Should Be Better Ally Or Lose American Aid

By R. H. GROWALD
Staff Writer, San Diego Union

RANCHO MIRAGE — Former President Gerald R. Ford says Israeli Prime Minister Menachem Begin should be a better American ally or Israel should lose part or all of its $3 billion-a-year military and economic aid from the United States.

"I think President Reagan has to sit down and be very firm with Mr. Begin," Ford said in an interview last week. Mr. Reagan and Begin are scheduled to meet in Washington tomorrow.

> *'It bothers me that Mr. Begin undertakes these military actions with a good bit of the military equipment supplied by the United States. And Mr. Begin, at the same time, seems to disregard the views of President Reagan and Secretary of State (Alexander) Haig.'*
> *— Former President Gerald R. Ford*

Asked whether further U.S. aid to Israel should be contingent on Begin being more cooperative with the United States, Ford said, "Absolutely.

"American taxpayers expect better cooperation in their providing Israel with $3 billion a year in arms and economic aid."

The 68-year-old former chief executive was interviewed in his office here where a window to his left overlooked the 13th hole of the Thunderbird golf club.

He talked of Israel's invasion of Lebanon, of the British-Argentine fighting in the Falklands, of the economy and politics.

"I certainly do not approve the actions of the Israelis going as far (into Lebanon) as they have. I can understand them wanting to clean out an area that would give them security from PLO (Palestine Liberation Organization) shelling.

"But I am very, very apprehensive about the military action that they took, which, in the long run, is not in the best interests of the United States."

Ford, who visited the Middle East and was hosted by Begin in 1979, spoke carefully, almost slowly. As president, with then Secretary of State Henry A. Kissinger at his side, Ford had engineered Israeli-Egyptian fence-mending as a basis for peace.

"It bothers me that Mr. Begin undertakes these military actions with a good bit of the military equipment supplied by the United States," Ford said. "And Mr. Begin, at the same time, seems to disregard the views of President Reagan and Secretary of State (Alexander) Haig.

"Furthermore, I believe that a valid argument could be made that the use of those arms supplied by the United States is in violation of U.S. law. Those arms are made available to Israel for defense, not aggression."

Ford stressed the importance of the scheduled Reagan-Begin meeting. "Mr. Begin has got to be more cooperative with the United States in how he proceeds in the Middle East, particularly if he wants $3 billion a year in U.S. military and economic assistance."

Ford said the Israelis have clobbered the PLO, but said the PLO cause will not go away.

"There is no doubt Israel has wielded a devastating blow to the PLO military structure and to the PLO logistical set-up. Israel probably has captured a number of PLO leaders. However, that is not going to destroy the PLO's means and objectives.

"There will be others who come along and push the PLO policies and programs. They will have to operate from different bases. They will be handicapped for some months.

"There are an awful lot of Palestinians and I'm sure the Israelis cannot capture or kill all of them. So the Palestinians are still going to be around," Ford said.

Appendix A Part 2

The Washington Post Sunday, June 13, 1982

Jody Powell

A Widening Gap Between Us and Israel

The Israeli invasion of Lebanon brings to the fore a fundamental problem that sooner or later must be faced by both Israel and the United States—their growing divergence on basic assumptions and policy.

It is not enough to say that we both seek a secure Israel, living in peace with its neighbors. For the past several years, it has become increasingly apparent that a gap is widening between us on how we reach that end.

For over a decade, our assumption has been that eventually Israel would trade occupied territory for peace and recognition from its Arab neighbors, as it did with Egypt at Camp David. From that occupied territory some form of Palestinian entity would be created—a homeland, if you will. The degree of self-rule it would enjoy was bound to be a knotty problem. How to guarantee that it would not become a military threat to Israel was another. Adjustments in the pre-1967 borders would have to be painfully negotiated. And, there was always the question of Jerusalem.

From the beginning, Arab leaders, even those who privately accepted this basic formula, were unwilling or unable to step beyond their rhetoric and begin to negotiate an ageement. Finally, Egypt broke ranks and opted for peace at Camp David. But Syria, Jordan and the Palestinians remained adamant. Failure of the Palestinians to seize upon the promise of self-rule agreed to at Camp David is one of the tragic examples of a people ill-served by its leaders. Most of the blame for the torment of that region and the suffering of its people must fall upon such leaders.

Now, however, the government of Israel appears to have allowed itself to be drawn into the pattern of short-sighted behavior so long exhibited by its neighbors. It is not hard to find ample provocation for Israeli actions, but being provoked is not always the same thing as being right.

On the West Bank and in Lebanon, Menachem Begin seems to have embarked upon a course designed to preclude both the exchange of territory for peace and a settlement with the Palestinians—a course that may marginally enhance security in the short run but cannot lead to a lasting peace.

The number of Israeli settlers on the West Bank has doubled since Begin took office. Arab officials, elected under Israeli sponsorship in elections once pointed to with pride by Israeli officials, are being removed from office. There is no evidence that Begin's government has any desire to pursue seriously the autonomy talks agreed to at Camp David or to encourage others to join them.

The objectives of the invasion of Lebanon go beyond pushing the Palestinian rockets and artillery away from the Israeli border. Operation Peace for Galilee has as much to do with the West Bank as with Galilee. The goal in Lebanon and on the West Bank is to remove the PLO as a political and military factor. Thus unencumbered, Begin and Sharon apparently feel they will be able to induce West Bank Palestinians to accept a fig-leaf autonomy plan and proceed with making the West Bank a permanent part of Israel.

The PLO can certainly be run out of southern Lebanon, or at least into the hills. Its few thousand disciplined troops, even with Syrian support, are no match for the Israeli army. The conventional military capability of the PLO can be severely damaged. But elimination of the PLO as a military and political factor in the region is another thing entirely. The cost to Israel would be tremendous: high casualities or a prolonged occupation, not to mention increased isolation in the world community. Thousands of Lebanese and Palestinian civilians would surely be killed in the process. The capacity for terrorism would be undiminished and the inclination toward it increased.

The United States cannot support such a policy either in its immediate effects or in its long-term implications. Israeli absorption of the West Bank is even more unacceptable. It would mean the death of the Camp David process and the destruction of the basis for any new peace initiative.

President Reagan's detached, "I'll-think-about-that-tomorrow" approach to all this is not encouraging. The longer we wait to address this growing conflict between Israeli and American policy, the more painful will be the day of reckoning.

Lebanon must be the first priority, but another tenuous truce there is not enough. We have no alternative but to hitch up our socks and jump back in the middle of the negotiations on the future of the West Bank. The president must find a skilled and experienced Middle East negotiator who has his confidence and can speak for him. (Philip Habib, our negotiator on Lebanon, has all the qualifications, but his health is probably not sound enough to allow him to undertake such an exhausting assignment.) It must be explained to Begin, although not necessarily publicly, that he is headed down a road that could separate him and his country from their only friend and ally.

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Appendix A Part 3

CHICAGO TRIBUNE Sunday, July 11, 1982

Point of View

Reassessing relations

By George Ball

THE ADVENT OF A NEW U.S. secretary of state at a time when American-supplied tanks, guns and planes are slaughtering civilians in Lebanon re-emphasizes the urgent need to recast our arrangements with Israel. The relations between the two nations cannot long endure unless based on mutual trust. But for the last quarter-century we have not enjoyed—or insisted on—an abiding trust in our relations with the Israeli government.

The central flaw in those relations has been apparent since long before Prime Minister Menachem Begin's regime. For years Israeli leaders have repeatedly taken the United States by surprise to launch military adventures without regard to their effect on America's interests. They have planned these adventures stealthily, because it was clear that the United States would have opposed them had our government been informed in advance.

That pattern of conduct has been consistently followed since 1956, when Israel connived with the French and British governments to attack Suez. In 1967, Israel again invaded Egypt without informing our government. In June, 1981, it secretly launched a bombing attack on Iraq's nuclear reactor and a month later bombed a residential area of Beirut, killing an estimated 300 people, most of them civilians.

Most recently, it chose a time when President Reagan was in Versailles, and world attention still was focused on the Falklands crisis, to invade Lebanon. Even though Begin promised the President that Israeli troops would not go beyond a line 25 miles north of its border, the Israeli army kept going all the way to Beirut, while the Israeli air force continued to bomb refugee camps and civilian urban centers. The civilian carnage was frightful.

Finally, although Begin assured the President that Israel would not invade Beirut, the army continued moving toward the city center, smashing apartment buildings and inflicting heavy civilian losses.

ALL THIS IS PART OF a pattern for American-Israeli relations that has now become routine.

First, Israel embarks secretly on some military adventure, usually when America's attention is distracted by events elsewhere.

Second, the U.S. government responds, if at all, with mild threats that both sides know will never be carried out.

Third, when the Israeli government expresses anger at those threats, we appease it with more planes and guns.

Only once has the United States required Israel to pull back from one of its adventures. In 1957, following the 1956 attack on Suez, France and Britain withdrew their forces in response to a UN resolution backed by the United States, but Israel showed defiance.

Finally, impatient with Israeli intransigence, President Dwight Eisenhower forced the Ben Gurion government, kicking and screaming, to obey the UN resolution and withdraw its forces. The lever he used was a firm threat to cut off all American aid to Israel if it did not comply.

That was the last time any American president has shown the political courage to combat Israeli obduracy. After the 1967 war, the United States negotiated Resolution 242 of the UN Security Council, which called for Israel's withdrawal from occupied territory to deliberately ambiguous "secure boundaries."

But, abjuring Eisenhower's practice of insisting on the enforcement of Security Council resolutions, we have permitted Israel to block the effective carrying out of Resolution 242 and to pursue a settlement policy that in effect is a creeping absorption of the occupied areas.

IN THE MEANTIME, the Israeli leaders have continued to demand more and more sophisticated weapons, until our country has now made Israel the most powerfully armed nation in the area. Yet, even though we are supplying Israel with economic and military assistance at a rate roughly equivalent to $3,500 to $4,000 a year for every Israeli family of five, Israel continues to take us by surprise with actions carefully timed to catch us off balance, using our weapons for adventures that undercut our vital interests.

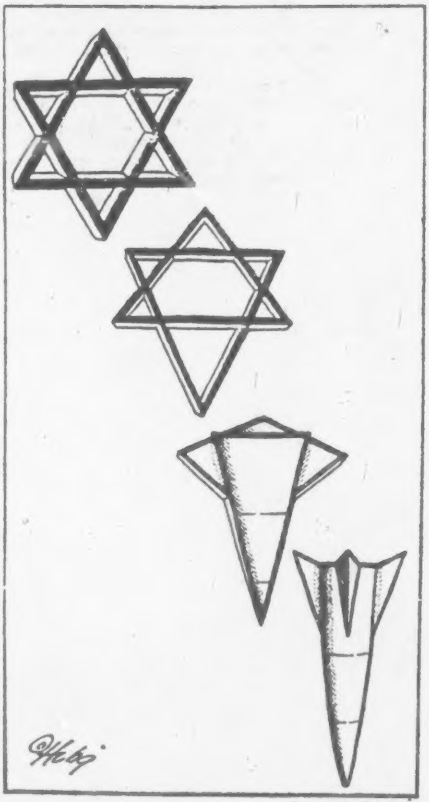

Illustration by Dan Hubig

George Ball is a former U.S. ambassador to the United Nations and was undersecretary of state for Presidents John Kennedy and Lyndon Johnson.

To believe that the decimation of the PLO leadership in Lebanon will pave the way for peace is pure wishful thinking. Making martyrs on a large scale, as the Israeli army and air force have been doing, will never kill the spirit of the Palestinians; instead, it will lead to increased bitter resistance and greater violence.

Instead of contributing to a solution of the festering Palestinian issue, which is the heart of the Arab-Israeli dispute, the devastation of Lebanon can only spread the radicalization of young Palestinians. Indeed, it will make it all out impossible to find Palestinian "Uncle Toms" with whom workable autonomy arrangements could be developed on anything like the plan on which Prime Minister Begin now insists—and which amounts to little more than an Israeli version of apartheid.

What the cynical advocates of realpolitik ignore when they applaud the invasion of Lebanon is that our most valuable asset is the world's belief in America as a nation committed to justice and humanity. Now we have let our reputation be seriously compromised by permitting our planes, tanks and guns to be used to kill an estimated 10,000 civilians and wound perhaps twice that many.

What this history proves is that there cannot be a healthy relationship between two countries when one engages in repeated deceptions of the other and pursues its own objectives in disregard of the other's interests. Yet one hears it repeatedly said that America is powerless to dissuade Israel from its willful actions, however obnoxious they may be.

SUCH A CONFESSION of impotence is not only unworthy of a great nation but quite unfounded in fact or experience, as Eisenhower showed in 1957. After all, there is nothing in our Constitution that requires the American taxpayer to continue to dole out $7 million a day to a nation that repeatedly defies us; we certainly do not treat the claims of America's poor as so sacrosanct.

That does not mean that one should begrudge our aid to Israel were it provided in the context of a self-respecting relationship, nor should there be any doubt that such a self-respecting relationship with Israel is possible. If we have not achieved it, the fault is ours.

One may hope, therefore, that George Shultz will undertake, among his first tasks as secretary of state, to design a decent and defensible American relationship with Israel that will save us from the embarrassment and shame resulting from reckless adventures by the Israeli government. If we do not do so, if we continue our permissive course behaving as though we were Israel's satellite and permitting our Middle East policies to be made in Jerusalem, we are likely to be drawn into a deteriorating situation catastrophic for both sides and for world peace.

One can, as I do, support Israel as a Jewish national home—the original noble Zionist concept—but that does not mean that America should assist in building an Israeli empire.

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Appendix A Part 4

CHRISTIAN SCIENCE MONITOR Friday, September 24, 1982

Israel and the US at cross-purposes

By Joseph C. Harsch

Menachem Begin paid a heavy price this past week for having sent Israel's armed forces into west Beirut.

The President of the United States in Washington held Prime Minister Begin responsible for the dreadful consequence of that move (the massacre of several hundred Palestinian men, women, and children), demanded the immediate withdrawal of those Israeli forces, and sent US Marines back to Beirut, along with French and Italian troops.

The purpose of the return of the US-European force was to guard Arabs, not to guard Israel against Arabs.

This reversal of the usual US role in the Middle East was only one of many changes in the Mideast pattern which followed swiftly on the news that "Christian" Phalangist militia men had been admitted to Palestinian refugee camps by Israeli troops and had committed there a two-day indiscriminate killing, in the words of one survivor, "of anything that moved."

PATTERN OF DIPLOMACY

The Israeli government denied responsibility for the killing, but in Washington John Hughes, the State Department spokesman, said:

"Israel assumed military control of west Beirut. When you take military control, you assume responsibility for what happens."

Opinion on Capitol Hill in Washington was affected both by news of the massacre and by the subsequent refusal of Mr. Begin and his Cabinet to authorize an official investigation of the massacre and of the events leading up to it. Even congressmen who normally support Israel in all its actions recognized that this spelled the end of any idea of an increase in the annual US subsidy to Israel.

Israel received $1.3 billion in US military aid and $785 million in economic aid in the 1982 fiscal budget. The Reagan administration had intended a higher figure in the new budget. There will be no higher figure. There might be a cut in the old figure, which is the highest level of aid on a per capita basis that either the US or the Soviet Union gives to any client.

Cuba, with three times the population of Israel, gets roughly the same dollar's worth from Moscow that Israel gets from Washington. Vietnam, with roughly 20 times the population of Israel, gets about half as much from Moscow.

For the first time in the history of Israel many of the most influential American newspapers, magazines, and broadcasting programs were highly critical of Israel's actions. Support was general for President Reagan's plan for a "new start" toward peace in the Middle East. That "new start" had called for an immediate freeze on Jewish settlements in occupied Arab territory, for withdrawal of Israeli forces from Lebanon, and for prompt negotiations looking toward the establishment of an independent Arab community in the occupied territories of the West Bank and Gaza.

During the week Washington continued talking with the moderate Arab countries, trying to keep them in line for peace negotiations. Washington officials regarded the attitude of the Arab countries as being modestly promising. Washington disagreed openly with the Begin contention that the Arabs had rejected the President's peace proposals.

For the first time there was serious criticism of Israeli policy in the American Jewish community. And in Israel itself there was a vigorous and vehement – although still a minority – opposition to Begin policies. At this writing, one member of the Cabinet had resigned. The architect of the government's "hard-hand" policy toward Palestinian Arabs on the West Bank, Menachem Milson, also resigned over Mr. Begin's refusal to have an official investigation of the massacre.

Public opinion in the US had become less supportive of Israel before news of the massacre. An early September Gallup poll showed a drop in the "favorable" rating for Israel from a 1981 high of 74 percent down to a new low of 56 percent. The "unfavorable" rating went up from 19 percent in 1981 to 36 percent in early September. Polls taken after news of the massacre are expected to show a further decline in US public support for Israel.

As of this writing, Mr. Begin was taking steps to comply with the American President's demand for an Israeli withdrawal from west Beirut. The Israeli Cabinet had, apparently with reluctance, agreed to allow the mixed US, French, and Italian armed force to return to Beirut. But Mr. Begin continued to resist the idea of any full withdrawal from Lebanon, and continued to refuse to put a freeze on Jewish settlements in West Bank and Gaza territory.

The central feature of the whole Mideast situation is that the President of the US and the prime minister of Israel are now pursuing conflicting policies. Mr. Begin is pushing toward Israeli annexation of all of the occupied Arab territories. The American President continues to work consistently for an ultimate peace between Arabs and Israel involving Israeli withdrawal from most of the occupied territories.

There can be little doubt that the facts of the massacre and of the refusal by the Israeli Cabinet to authorize an investigation have weakened and damaged Mr. Begin and his policies inside Israel, in the world generally, with American public opinion, and in the Congress in Washington. Mr. Begin can no longer assume that in a test of strength in Congress he will necessarily win out over the American President.

The other side of the same coin is that the prospect has improved that someday the Arabs of the occupied territories will be able to live under their own laws and their own leaders. The President of the US is publicly committed now to that purpose. Mr. Begin has weakened, not advanced, his own purposes by sending his troops into west Beirut in explicit defiance of the wishes of the American President.

Political observers of the Mideast doubt that opposition to Begin policies in Israel will be sufficient to bring down his government in the visible future. Some polls in Israel seem to show that he has stronger and more widespread backing than ever, although also more vigorous opposition. But he can no longer take American support for granted, or a continuation at rising levels of the most generous subsidy any superpower gives to a client.

James Reston in the New York Times noted this week that the US subsidy comes to "between $3,500 and $4,000 a year for every family of five in Israel – which is more than the unemployed get in Detroit."

Appendix B Part 1

CHRISTIAN SCIENCE MONITOR January 19, 1983

How Israel settles the West Bank

By Meade Thorpe Jr.

Following the 1967 Arab-Israeli war, a formula for peace was accepted by the parties and supported by the United States. It provided that territories conquered by Israel, including the West Bank and Gaza, would be relinquished in return for peace and recognition.

In recent years the Arab world and the Palestinians have been moving toward acceptance of Israel, but the present Israeli government, by its aggressive policy of taking control of West Bank and Gaza lands and settling them with Israelis, is trying to ensure that Israel can never be forced to deliver its side of the bargain. Americans should be aware of how this settlements program functions and the degree to which our government assists its success.

The most recent of many land-taking techniques has increased the amount of West Bank and Gaza land under Israeli control from approximately 35 percent to an estimated 65 percent. It is the use of the old Turkish Land Code to claim for the state uninhabited lands which lie beyond the sound of human voice from the nearest village. The proof of ownership required of Palestinian claimants is almost impossible to satisfy.

Measures for inducing Jewish settlement of this land include its sale to Israeli developers for 5 percent of fair value, and grants and interest-free and nonindexed loans to home purchasers of up to $30,000. (At 140 percent annual inflation, the principal of a nonindexed loan, after six years, is less than 1 percent of what a fully indexed loan would be.) Further benefits (the conversion of loans to grants) are lost if the "settler" leaves before five years.

Other inducements include larger flats, immediate telephone service, child-care centers. I recently asked a young couple with a painting business why they moved from Tel Aviv to the West Bank. "Very simple," was the reply. "No taxes."

Commentator 'El'azar Lebin observed recently in the newspaper Ha'aretz, "The subsidy is so heavy and massive that it seems that only fools will not build their new homes here [the West Bank]."

The extraordinary intensity of the housing crisis in Israel assists the program. The government has no reason to spend money on housing in Israel when its objective is to get people to move to the West Bank.

World opinion holds that the most promising solution to the 60-year conflict over Palestine is to let the West Bank and Gaza become a Palestinian homeland where Palestinian culture can continue and with which 3 million dispersed Palestinians can identify. These territories represent only 20 percent of the contested land of Palestine. The 1.3 million Palestinians living there constitute 98 percent of the territories' population. The Israeli "settler" population currently is only 2 percent of the total. But, with the inducements described above, it is poised to explode.

Four US administrations prior to the Reagan administration termed the settlements "illegal." President Reagan's Sept. 1 peace plan proposed a settlement "freeze," and the President stated that "further settlement activity is in no way necessary for the security of Israel." Israel's response was additional settlements.

Despite Israel's rejection of the President's proposal, Congress improved the administration's aid package to Israel by $510 million (by changing $610 million of proposed loans to grants).

The most recent of many land-taking techniques has increased the amount of West Bank and Gaza land under Israeli control from approximately 35 percent to an estimated 65 percent.

It is always stipulated that US aid will not be used to fund projects on the West Bank, but, since cash is fungible, such assurances are easily avoided.

It is not as if the Congress has not had the opportunity to focus on the relation between US aid and the settlements. Sen. Adlai Stevenson III, well informed on Middle East issues, sought in 1980 to have $150 million of aid — "a conservative estimate of what the Israeli government is spending annually on its settlement program" — withheld until Israel's settlement policy was more satisfactory to the President. Only six senators supported Stevenson.

It has been recently reported, and not denied, that Mr. Reagan himself has never discussed the settlements issue with Mr. Begin.

Former Israeli Supreme Court Justice Haim Cohen said, "We hold [the West Bank] as trustees only. It is elementary knowledge that a trustee who takes for himself from the trust property is stealing in one of the ugliest ways."

All the leading nations of the world consider Israel's settlements policy damaging to the peace process. The policy is highly controversial even within Israel and the American Jewish community. Americans profess to support a just peace for both the Israeli and Palestinian people, yet our leaders and elected representatives are unwilling to address this vital aspect of the problem. If they continue to lack resolve, they encourage more decades of strife and human suffering, and wars even more destructive than in the past.

Meade Thorpe Jr. is president of the Foundation for Middle East Peace, Washington, D. C.

Appendix B Part 3

THE WASHINGTON POST January 18, 1983

Carter, Ford Rap Israel on Settlements

NEW YORK, Jan. 17 (UPI)—The continuing settlement of occupied Arab lands by the Israelis is the "major obstacle" to peace in the Middle East, former presidents Jimmy Carter and Gerald R. Ford said today in an article in Reader's Digest.

Writing together in the February issue, Ford and Carter urged the United States, Israel and Arab countries, with U.S. help, to "snatch peace from the caldron that has been the Middle East."

In the article they said it is incumbent upon the government of Israeli Prime Minister Menachem Begin "to realize that, however it may define its intentions in the West Bank and Gaza, however it may seek to rationalize its actions there, the evidence is convincing to the Arab world and beyond that the Israeli leaders have simply chosen to seize these lands and hold them by force.

"This policy is the major obstacle to any moderate Arab initiatives for a peaceful resolution of differences."

They called on Israel to return to the commitments made at the Camp David summit, especially "the resolution of the Palestinian problem in all its aspects.

"Our painful conclusion from events thus far is that the Begin government is not living up to those commitments.

"It has shown little inclination to grant real autonomy to the Palestinians in the West Bank and Gaza areas. It has continued to confiscate properties in occupied territories and to build settlements as if to create a *de facto* Israeli ascendancy there. It has publicly repudiated the Reagan peace plan, which calls for a freeze on Israeli settlements," they said.

They said, however, that Arab moderates, "Jordan's King Hussein, in particular," must be willing to "step forward and negotiate for a Palestinian homeland with an Israel they recognize as a fellow nation."

They said, "Hussein could make the dramatic gesture that would put the Begin government under immense pressure to reciprocate."

Appendix B Part 4

NATIONAL ASSOCIATION OF ARAB AMERICANS

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OVERVIEW OF ISRAELI SETTLEMENT POLICIES

Introduction

Israeli settlement policy in the territories occupied since 1967 has become a central issue in the quest for peace in the Middle East. President Reagan's peace initiative outlined on September 1, 1982, reiterated the provisions of Security Council Resolutions 242 and 338 that call for withdrawal from occupied territories in exchange for peace. The US has taken the position that prior to a final negotiated settlement, the Palestinians in the West Bank and Gaza must be allowed to practice self-government for a transitional period. In order that this can be made possible, Israel must eventually desist from actions that "create facts" in the territories or create conditions that would make Israeli concessions difficult in negotiations for an overall settlement.

President Reagan's peace plan spelled out this position clearly in a statement in which he said, "The United States will not support the use of any additional land for the purpose of settlements during the transition period." The President then called for "the immediate adoption of a settlement freeze by Israel," as this could "create the confidence needed for wider participation in these talks. Further settlement activity is in no way necessary for the security of Israel and only diminishes the confidence of the Arabs that a final outcome can be freely and fairly negotiated."

The acceptance of a settlement freeze by Israel would be, in part, a "show of faith" in the peace process. It would also have indicated that Israel accepts the concepts implied in this, i.e., withdrawing from substantial areas, and relinquishing claims to sovereignty over those areas in return for peace. However, the Israeli government flatly rejected the U.S. peace initiative in its entirety, and reiterated statements made in the past that Israel would never give up its claims to the West Bank and Gaza, nor would they allow any part of the area to come under "foreign rule."

Giving impetus to its categorical rejection of the Reagan initiative, the Israeli government announced the establishment of five new settlements and plans for 20 more in the next 12 months. Israeli authorities also publicized a masterplan which Ariel Sharon had prepared when he was Minister of Agriculture in the first Likud government. This plan projects 160-185 settlements in the West Bank, Gaza and Golan Heights with a Jewish population of 100,000 by 1985.

Background

The Israeli settlements policy was planned and implemented by the Labor government, which held power between 1967 when Israel occupied the West Bank, Gaza Strip and Golan Heights, and 1977. Settlement activity began two weeks after the 1967 war when the Israeli Knesset (Parliament) formally annexed East Jerusalem, including the Old City, and started building apartment complexes around it. These complexes were designated for Jewish residence only, as were areas within the Old City, where it was planned that 10,000 Palestinians would be expelled to be replaced by 5,000 Jews. By 1977, there were at least eight settlements around East Jerusalem.

Following the initial settlement activity in and around Jerusalem, new settlements were started in the Jordan valley. These settlements eventually formed a string stretching north and south along the West Bank of the Jordan River and the northwestern shore of the Dead Sea. More settlements were established near the major Palestinian towns of Nablus, Ramallah, Hebron and Halhoul. Other smaller settlements were started by militant Israelis, particularly those affiliated with Gush Emunim (Bloc of the Faithful), who claimed the right to settle "any where in Eretz Yisrael [land of Israel]."

In the ten years in which the Labor alignment was in power, 50 settlements had been established in the West Bank, Gaza and the Golan Heights.

In recent weeks, Labor Party leader Shimon Peres has explained his party's views on settlement policy in the occupied territories. The Labour alignment views the settlements as having strategic value. Situated in certain specific areas, particularly along the Jordan River, they are considered a defense line against any military action orginating from the east. They would also help to ensure the demilitarized status of the West Bank. Thus, the whole area would be a viable buffer against attacks aimed at the coastal plain along the Mediterranean.

The Labor alignment would thus be willing, in principle, to give up large areas of the West Bank to Jordan in a future peace settlement. They would, however, retain those settlements that they feel are necessary for Israel's defense. However, they do not exclude the idea that Jews may settle wherever they like. Peres illustrated this idea in a recent interview in which he outlined the Labour party's position: "There is no question of signing a document which would, on principle, ban Jews from residing in certain territories. That is inconceivable and has never been done. But some settlements might find themselves under non-Israeli sovereignty. It is not impossible that they might deem it preferable to leave."

Peres' statement is consistent with Zionist thought, though it does not go as far as earlier Israeli leaders would have liked. One of the basic premises of the Zionist philosphy is the "redemption of Eretz Yisrael," which includes the West Bank and Gaza. According to recent Israeli polls, a majority of Israelis support the notion of retaining these areas under permanent Israeli control, and view Israel's occupation of them as a "liberation" of what is theirs by "right."

Other Israeli statesmen have been explicit in expressing Zionist aims. The late Moshe Dayan described the occupation after the 1967 war in expansionist terms. In 1969, when he was Minister of Defense in the Labor Government, Dayan reflected in an interview that, "Our fathers reached the frontiers which were recognized in the Partition Plan [of 1947]. Our

Legal Status and International Law

In March of 1982, Begin made clear the Likud's position that the West Bank was an integral part of Israel: "Judea and Samaria [the West Bank] are occupied territory? Judea and Samaria were occupied territory by the Jordanians, who conquered the western part of the land of Israel. And once it was occupied territory by the Egyptians when they invaded Israel. But it is not occupied territory. It is the land of Israel."

Since coming into office in 1977, Begin has described Israeli settlements in occupied territories as "legal, legitimate and essential." None of these adjectives are considered accurate descriptions of Israeli settlment activity by the international community or international law experts. International bodies have upheld the view since 1967 that Israeli settlements in the occupied territories are illegal and an obstacle to peace, notably in resolutions passed by the UN Security Council and General Assembly with the support of the United States.

The US Government has continuously maintained the illegality of Israeli settlements since June 1967. In a State Department letter issued in April 1978, the US upheld this position, saying, "While Israel may undertake, in the occupied territories, actions necessary to meet its needs and to provide orderly government during the occupation...the establishment of the civilian settlements in those territories is inconsistent with International Law."

The Internation Law referred to, and on which the UN resolutions are based, is the Geneva Civilians Convention of 1949, a multilateral treaty to which the participants in the Arab-Israeli conflict, as well as the United States, are signatory. This convention pertains in particular to the administration of territories as a result of war, and the protection of civilians in time of war or under occupation.

The Civilians Convention states that, "The High Contracting parties undertake to respect and to ensure respect for the present Convention in all circumstances." All signatory states, including the United States, are therefore responsible to correct any violation of the Convention committed by any other state.

Article 49(6) of the Convention has particular applicability to Israel's settlement activity in the occupied territories. This article states in part that, "Individual or mass transfers, as well as deportations of protected persons from occupied territory of the Occupying Power or to that of any other country, occupied or not, are prohibited, regardless of their motive...The Occupying Power shall not deport or transfer parts of its own civilian population into territory it occupies."

Israel has attempted, since 1967, to avoid the application of the Convention while claiming to uphold its principles. This was done by attempting to use legal arguments that seem to support Israel's narrow interpretation of the Convention. The Israeli government bases its interpretation on a scheme first outlined by Yehuda Blum , the current Israeli Ambassador to the United Nations, in an article published in 1968, and since echoed by the Israeli authorities and their apologists, particularly in the US. generation reached the frontiers of 1949. Now, the six day war [1967 war] generation has the present cease-fire lines, there will be new ones. They will extend beyond Jordan--perhaps to Lebanon and perhaps to control Syria as well."

The Labor party has become more pragmatic since then, as evidenced by their present party leaders. Although there have been no statements from them renouncing all future claims to the West Bank and Gaza, they have expressed the preference for a state that is predominantly Jewish. For them, the "Zionism" of a state is determined by the percentage of the population that is Jewish. If Israel were to annex the occupied territories, the non-Jewish population would amount to 40% of the total. "An Israel that incorporates the West Bank with its 1.1 million Palestinian Arabs will be in serious danger of losing its Jewish nature and will virtually become a bi-national state," according to one Israeli political analyst who espouses the Labour party view.

The Likud coalition, in power since 1977, has no such compunctions. Under Prime Minister Menachem Begin's leadership, the Israeli government has set out to ensure that none of the occupied territories, in whole or in part, should ever again come under Arab sovereignty.

At a meeting of the Herut [Begin's party and member of the Likud coalition] last October, Begin described Herut's "special mission" in Israeli politics in these terms: "...if you want to encapsulate in a short sentence what our mission is in the near and foreseeable future--a historical mission, in the full meaning of the concept--it is to ensure that Judea, Samaria and the Gaza Strip are never handed over to foreign rule."

Begin's government presently enjoys wide support among the Israelis. With the exception of a small segment of the population, most Israelis share the idea that the West Bank and Gaza are "liberated" territory, and part of Eretz Yisrael. The most vocal of these have been the settlers themselves, who maintain that they have a religious and historical right to settle anywhere in Eretz Yisrael. Members of Gush Emunim, for instance, have priodically demanded that the government confiscate Arab land for new Jewish settlements.

Recently, members of this movement have started settling within Arab towns. In Hebron, settlers from a nearby settlement moved into a house in the heart of the town where several Arab families had been evicted several years ago. They proceeded to demolish several Arab-owned houses adjacent to a synagogue in order to build 21 apartments for other Jewish settlers.

Meanwhile, inhabitants of a Yeshiva settlement* near Nablus have established a permanent base inside the city where they plan to build a yeshiva and the infrastructure for permanent dwellings.

Blum's contention is that the application of the law of belligerent occupation in general, and the Civilians Convention in particular, is based on the presupposition that the "legitimate sovereign" of the occupied territory has been displaced by the occupant. Since Egypt and Jordan, so the argument goes, were not "legitimate sovereigns" because they were in Gaza and the West Bank as a result of alleged aggression, Israel is not required to apply the humanitarian law of the Civilians Convention for the benefit of inhabitants of the occupied territory.

Blum further contends that Israel has "the better title" over the occupied territories because the titles of various Arab sovereigns are deficient in one way or another, i.e., their title applies only to territory over which they had complete formal sovereignty. Israel is, therefore, in the occupied territories as a result of "defensive conquest."

An auxiliary argument is that the Civilians Convention applies only to short-term occupations. Israel claims exclusion from the criteria of the Convention on the ground of "special circumstances," because it has been occupying these territories for a long time.

None of the concepts used by Israel to support a special interpretation of the Civilians Convention are accepted in international law, nor are they seen to be applicable in this case. For example, the words "legitimate sovereign," upon which the Israeli argument relies heavily, do not appear in the Convention, nor is the position supported in the negotiating history. Furthermore, the applicability of the law is not contingent on Israel's recognition of the displaced government's title.

The Israeli claim of "defensive conquest" is also unknown in international law. Under the UN Charter, the rights of the defending state extend only to protecting security interests.

In relation to Israeli settlements in occupied territories, Israel claims that Article 49(6) does not apply because that convention's only purpose was to protect the indigenous population from deportation or displacement. It is claimed that deportation or displacement is not the purpose of the Israeli settlements. However, the Israeli contention is quite inconsistent with the negotiating history and the comprehensive language of Article 49(6) which indicates that settlements of the belligerent occupants civilian population are prohibited in the occupied territory, without regard to the claimed purpose of such settlements. [Emphasis added]

Critics of Israel's contentions point out that Israel's legal arguments have one feature in common: to promote the expansion of the state. In doing this they attempt to avoid the application of the Civilians Convention, and when this fails, they construe the broad wording of Article 49(6) in a restrictive manner so that Israeli settlements are exempted from its terms.

Criticism of Israel's arguments and policies have emanated from Israeli jurists as well. Nathan Feinberg, Professor of International Law Emeritus at the Hebrew University, has published a rejection of the legal arguments of the present Israeli government as fundamentally inconsistent with Israeli national interests as well as with international law. Professor Feinberg concluded in his article that the Civilians Convention is applicable, and that Article 49(6) does prohibit the Israeli settlements in occupied territories.

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*The members of a Yeshiva settlement are young Israelis who form religious study groups, and are usually undergoing military duties at the same time. The religious studies schools they establish at religious sites are developed into permanent settlements when the students' families move into the area they occupy.

Israeli settlement plans

The Likud coalition, led by Prime Minister Begin, began implementing a settlements policy in occupied territory that differed from the previous Labour government's policies in several ways. The Labour party had concentrated on settlements that would serve as a line of defense, and expected them to develop into communal-type cooperative settlements in the style of the Israeli kibbutz. Although as many as 50 such settlements were established between 1967 and 1977, the number of Israelis in these settlements remained very low, and maintaining the settlements proved to be economically unviable.

Begin's government sought to overcome these difficulties and at the same time radically increase the areas to be settled. The new plans for settlements were initiated by then Agriculture Minister Ariel Sharon in 1978, and their implementation has been accelerated in a bid to pre-empt a peace settlement that would return large portions of the occupied territories to Arab sovereignty.

In recent weeks, the American media has carried reports on a study carried out by Meron Benvenisti, the former Israeli deputy mayor of Jerusalem, who describes the new methods the Begin Government uses to control more Arab land, expand settlements and create new ones, increase the Jewish population in the settlements, and overcome the economic obstacles to settlement activity.

The masterplan, drawn up by the Settlement Department of the Jewish Agency and the Settlement Section of the Zionist Federation, covers five years starting in 1983. According to this plan, 100,000 people will be added to the West Bank, 20,000 in the Golan Heights, and 10,000 in the Gaza Strip.

In order to achieve this, the Israeli government started a new method to obtain land for settlement use. Israel already exercises direct ownership over approximately 400,000 of the West Bank's 1.45 million acres. In addition, the Israeli government has resurrected an old Ottoman land code which allows the authorities to seize land which is uncultivated, such as rocky ground, which is not in possession of anyone by title deed. Using this code, the Israeli government is controlling over 50% of the West Bank excluding East Jerusalem.

This is the area to which Israeli law will be gradually and, if necessary, formally applied by the end of the five-year settlement period. The Arab areas will, on the other hand, remain under military government, completely surrounded by Israeli settlements. This plan amounts to the unilateral imposition of Israel's version of autonomy.

Benvenisti's study points out that a significant factor in this plan is the type of settlement envisaged. The emphasis is on urban settlement, or dormitories for the large urban centers in Israel. This type of settlement has been likened to suburban development in the US, and is designed to attract a population which is already economically active in urban areas in Israel. The quality of life and level of services provided in these suburbs will be higher than in Jerusalem or Tel Aviv, and at a substantially lower cost to the settler.

The new suburbs will also be more attractive to Israelis who are not willing to go to isolated and far-flung settlements in the occupied territories. New freeways will enable suburban settlers to get to the heart of urban centres in approximately ten minutes. The new roads will also serve to further separate the Arab areas from each other.

At the current rate of building, 3,000 apartments are becoming available every year. That amounts to an increase of the Jewish population in the West Bank by 12,000-15,000 annually, or 100,000 by 1986.

The new suburbs are being built by private entrepreneurs, and are slated to receive public funds only for infrastructure. Settlers are given very favorable 20-year mortgages on up to 80% of the value paid back at 5% interest. The settler does not have to pay back the loan as long as he continues to live in the new settlement. The units are priced at about one third the value of a comparable unit in downtown Tel Aviv or Jerusalem, making the idea of living in these communities extremely attractive, particularly to younger married couples.

The implications of this type of settlement and the overall settlement masterplan for the West Bank Palestinians are distressing. The Israeli settlers in the occupied territories retain Israeli citizenship and are governed by Israeli civil laws. The Palestinian inhabitants remain under military government. The dual legislative, executive and administrative system, which separates the Jewish from the Palestinian areas, is augmented by the physical strangulation of the Palestinian areas. While more land in the West Bank comes under Israeli control, less land becomes available for Arab development. The thrust is clearly towards implementation of the autonomy envisaged by Begin at Camp David, i.e. that autonomy applies only to "inhabitants" and not the land.

The political implications to this plan were made clear when Israel accelerated the pace of settlements in response to Reagan's call for a settlement freeze. The Israeli government realizes that a large shift of Israel's urban population to areas under Israeli control in the occupied territories would make territorial concessions extremely difficult. The message is that Israel has no intention of withdrawing from occupied territories.

Funding allocations for settlements

The current annual budget for development and building on the West Bank is estimated at $100 million.* Half of this sum has been allocated to the Housing Ministry and about $31 million to the Agriculture Ministry. The balance has been allocated to other bodies, such as the public works, telecommunications and education departments. According to Mikhael Deqel, the deputy Agriculture Minister, Israel will spend approximately $1 billion by 1987 on settlements, 60% of which will be financed by the government.

Deqel also announced that the Knesset had approved an additional $16.6 million for the settlement budget. However, Simcha Ehrlich, Deputy Prime Minister and chairman of the Ministerial Committee on Settlement Affairs, pointed out that there was no budget in existence for this allocation.

It is likely that funding for settlements rely to some extent on foreign aid, considering that Israel's economy is experiencing difficulties with the high military costs incurred by the invasion of Lebanon on top of other chronic economic problems. This has led analysts to suggest that part of the $800 million non-military aid given to Israel by the United States is being used for funding settlement activity. Recent reports in the US press have also suggested that Israeli opposition leaders would welcome a cut in US non-military aid to Israel in the hope that this would bring down the Likud government, and put a stop to what they see as an erosion in the character of their nation.

The issue of US aid to Israel is a complex one, but the chances are that allocations of this aid to various sectors of the Israeli economy will come under closer scrutiny, both by the Administration and Congress. Israel's invasion of Lebanon and continued occupation of almost half that country, as well as the categorial Israeli rejection of President Reagan's peace initiative, have raised many questions in the US about how far America has been--and should be--underwriting unpopular Israeli actions at the U.S. taxpayers' expense.

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*This does not represent the total annual cost of development and building. USAID, using independent calculations, arrived at an estimate of $200 million overall annual cost.

Appendix B Part 5

THE WASHINGTON POST January 2, 1983

Cheap Homes for 'Settlers'

Subsidies Pull Israelis to West Bank

By Edward Walsh
Washington Post Foreign Service

MAALEH ADUMIM, Jan. 1— Yoram Harpaz, a 30-year-old Jerusalem high school teacher, is about to become a pawn in the game of Middle East power politics.

This month Harpaz and his wife will move out of their small, dark, rented apartment in Jerusalem to larger, more modern and less expensive quarters they have purchased in this suburban community six miles east of the heart of Jerusalem. Like many young couples the world over, they dream of a family and a better life away from the noise and congestion of the big city.

But when they move they will become, unwillingly and with agonizing second thoughts, part of a political movement—Jewish "settlers" in the occupied West Bank, two more toward the World Zionist Organization's goal of placing 100,000 Jews in the West Bank by the middle of this decade, making the territory irretrievably a part of Israel.

By the time Prime Minister Menachem Begin meets with President Reagan in Washington in February, Harpaz and his wife will be settled in the West Bank. The two political leaders are certain to discuss Reagan's Middle East peace initiative, with its ultimate goal of linking much of the West Bank to Jordan and his call for a freeze in the meantime on new Jewish settlements in the territory.

But Begin can be expected to resist fiercely. He will count among his strongest backers those Israelis who have already put their hopes for the future in the bleak landscape of the West Bank.

The government makes it easy for Harpaz to join the cause. The land, viewed by Israel as in the public domain, is seized under the provisions of an arcane Ottoman land law that leaves little room for Arab counterclaims. As a result, land is not a major cost factor as it is almost anywhere else in the world. Building costs, with cheap Arab labor providing much of the muscle, are modest compared to the cities' . The government provides modern public facilities, such as a new road soon to connect the community to Jerusalem.

With generous mortgage subsidies and tax advantages, the Harpazs' monthly housing costs will plunge from about $200 to $60 when they move across the so-called Green Line that separates Israel from the territory it captured from Jordanian rule in the 1967 war.

Two years ago, Harpaz and a friend entered a government-sponsored lottery for the chance to purchase one of the first 400 apartment units in Maaleh Adumim. Harpaz lost out, but he says that because he strongly opposes what he calls his government's "annexation policy" toward the West Bank, he was secretly pleased.

His friend Amos Paz, who was one of the 400 winners, later told him some apartments had gone unclaimed. It was then that Harpaz made the decision that thousands of young Israelis are making, with enthusiasm or reluctance.

"I had some sleepless nights," he said. "I said to myself that Maaleh Adumim is going to be built with me or without me and I have a moral obligation to my wife and future family. So I went and bought, not with a clear conscience."

Because Israel is identified with the kibbutz movement and because the first Jewish colonies in the West Bank were lonely security outposts, places like Maaleh Adumim are called "settlements" and their inhabitants "settlers." But when applied to a planned community of 40,000 like this or many other burgeoning Jewish towns in the West Bank, the terms are misleading.

Three- and four-story apartment buildings rise starkly out of the rocky soil on the hillsides above the road to Jericho. From the outside, they form ugly rows of concrete boxes. Inside, the apartments are large by Israeli standards and fully equipped with modern conveniences.

The air is clean and the residents and promoters of Maaleh Adumim speak enthusiastically of the "quality of life" it offers. The head of the town council recently traveled to Switzerland to negotiate a contract for a minitrain system to provide public community transit.

It began seven years ago, one of those unnoticed dots on the map, when 25 families established a colony that is now an industrial area adjacent to the housing complexes. Four years ago, the Begin government approved the master plan for the community and the next year construction started. It now involves nine private and three public firms.

Families began moving in last June and now number about 1,000. Another 1,000 apartments, including Harpaz's, have been sold and are waiting to be occupied. A year from now, the number of families is expected to have doubled.

Some who move here adamantly oppose the Begin government's policies toward the West Bank. Others fervently support Begin's view that it is part of the biblical "land of Israel" and is to remain so forever. But the vast majority of the residents, according to Dany Edery, director of Maaleh Adumim's community center, think about the issue little.

"The reason people come here is not politics, and this is a good thing," he said. "The political problem, we don't deal with it here. It is not part of our lives."

"They are the same people who go to the American suburbs—young families looking for affordable housing," said Meron Benvenisti, a city planner and former deputy mayor of Jerusalem who recently completed an extensive study of land use and development in the West Bank.

The average age of the apartment purchasers in Maaleh Adumim is 27, just a few years over the average age of marriage in Israel. There are already close to 500 children in the community's schools, which start with free prekindergarten care provided to the residents on the West Bank's "development towns."

Watching all this, the mayor of nearby Jerusalem, Teddy Kollek, publicly frets that places like Maaleh Adumim are robbing his city of its future—fears that the mayor of any large American city would understand.

Within a few years, a whole generation of Israelis who have never known their country without the West Bank will reach the age of marriage. When they look for a place of their own, more and more of them are likely to choose not the cities like

Jerusalem, where housing is scarce and expensive, but the development towns of the West Bank.

Maaleh Adumim and the other "urban settlements" scattered across the occupied territory will be waiting for them. "With your help we will develop this city and enjoy together a high standard of living," proclaims a brochure put out by the town and its developers. "Our purpose is to establish a flourishing city which is good and comfortable to live in. Today the dream comes true. Maaleh Adumim has become a city."

The brochure goes on to describe the area, the facilities and the advantages of the good life in the West Bank: "We have two plans for extended day care for children in kindergartens and schools until 4 p.m. to allow parents to continue to work in Jerusalem. We will supply transportation to junior and senior high schools outside the area. All education workers are eligible for special housing loans, rent subsidies, grants for professional advancement and upgraded seniority."

With these as some of the attractions, the World Zionist Organization, which maps the settlement plans that the government later approves and executes, seems confident that the West Bank in effect has already been annexed.

"You are talking about something that has started and you cannot stop it," said Zeev Ben Yosef, spokesman for the Zionists. "It's over."

This is a message Ben Yosef is eager to deliver, for if the future of the West Bank were already determined, there would not be much point in the United States pushing the Reagan plan or any other proposal to settle the Israeli-Palestinian conflict that involves surrendering territory.

This may also help explain why, in the three months since the president's initiative, the Zionist organization and various government officials have put out a bewildering array of announcements of new and expanded settlements or master plans and projections for the Jewish population in the West Bank.

Benvenisti says some of the Zionist organization's plans and projections are exaggerated, that there is still time to halt the process and reach a political settlement in the West Bank. But on one central point there is no argument: it is very late in the game. And the key to the outcome is no longer whatever new settlements the Israeli government may approve, but the existing communities and their growth. That is governed only by the ability of contractors to put steel and concrete in place.

"In the United States you speak always of stopping new settlements," Ben Yosef said. "This is useless because we don't need to have new settlements. Mr. Begin could announce that we are stopping new settlements today without any effect. He doesn't do it for internal reasons."

"He's right, which is why a freeze on settlements is meaningless," Benvenisti said, referring to Ben Yosef's comment. "They don't need any more dots on the map." He said the government already controls enough land to reach its goals and has put in place most of the public infrastructure needed to support the Jewish communities. "Now the problem is only the capacity to build houses," he said.

To achieve its objectives, Benvenisti estimates that the Israeli government is spending $100 million to $120 million a year on direct settlement expenditures.

"Even if the government stops, the private market finds it so lucrative it will go on," he said. "It is now an integral part of the economy. It is the only part of the housing market that is flourishing. In other parts of Israel, the housing market is stagnant."

Even private firms owned by the Histadrut, Israel's giant labor federation that is controlled by the opposition Labor Party, have not resisted getting in on the bonanza. One of them is at work now in Maaleh Adumim, according to town officials.

A chart on the back of the Zionist organization's map of Jewish settlements tells how it got to be so late in the game so fast. Between 1967 and 1976, the Israeli government established 10 settlements in Judea and Samaria, the biblical names for the West Bank, and two in the occupied Gaza Strip to the south of Israel. Then came 1977 and the election of the Likud Bloc government of Begin, with his contention that the West Bank is an integral part of historic Israel.

In the six years of Begin's rule, 62 settlements were established in Judea and Samaria and nine in Gaza. Along with 31 settlements in the Jordan Valley—17 of them established by the Begin government—there are today 114 Jewish communities in the occupied territories with an estimated population of 25,000.

The first settlers were, in Ben Yosef's words, "pioneers" and "crazy people—you have to be crazy to live in such bad conditions."

Some were [illegible] [illegible] kibbutz members who in the uncertain years after the 1967 war believed their country's fragile security demanded their presence in what would be the front lines facing the Arab enemy across the Jordan River.

Others were driven by a different political ideology, like the followers of the militantly nationalistic Gush Emunim movement who contend they are part of a historic process to return the Jews to all of Judea and Samaria.

Now ordinary Israelis are coming to the dots on the map established by the pioneers. Eighteen of the 114 settlements, including Maaleh Adumim, are officially designated as urban communities and it is there that most of the astounding growth predicted by the Zionist organization is to occur.

According to Ben Yosef, there are now 6,000 housing units, most in the urban communities, in the final stages of construction. Another 4,000 will be completed within a year. Ben Yosef predicts there will be 70,000 Jews in the West Bank by mid-1983.

The Zionist organization's master plan calls for a West Bank Jewish population of 100,000 by 1986, but Ben Yosef said they may make it by 1984. The 30-year goal is to have 1.4 million Jews living in the West Bank. The current Arab population is about 700,000.

Even if the result is short of these goals, the vast expansion of the West Bank settlements is bound to have a large impact on the territory. The physical evidence is already there in the Israeli-built roads to connect the Jewish communities and in the towns that loom up, seemingly out of nowhere, across the landscape.

As Harpaz said, contemplating some kind of a political accommodation with the Arabs of the territory, "you cannot give a big city to the Palestinians."

The political impact, Benvenisti said, will be felt first in the Israeli Knesset or parliament. A West Bank population of 60,000 could affect five or six Knesset seats which, when added to those already ideologically committed to retaining all of the territory, would make a formidable bloc against any compromise, he said.

There will also be other, less visible changes. Now, for example, a lawyer must live within Israel proper to practice his profession. But if enough lawyers move to the West Bank, pressure will rise for a change.

"Laws will be changed and very slowly the difference between Israel and what is now legally a foreign country will disappear," Benvenisti said. "It will happen gradually."

Gradually, too, the way Israelis who have no particular interest in the West Bank view the territory will also change. A government official noted recently that since 1967 the vast majority of Israelis have steered clear of the West Bank. It is, after all, still captured territory under military occupation.

But with more of their friends and relatives moving to the West Bank, that psychological barrier will crumble.

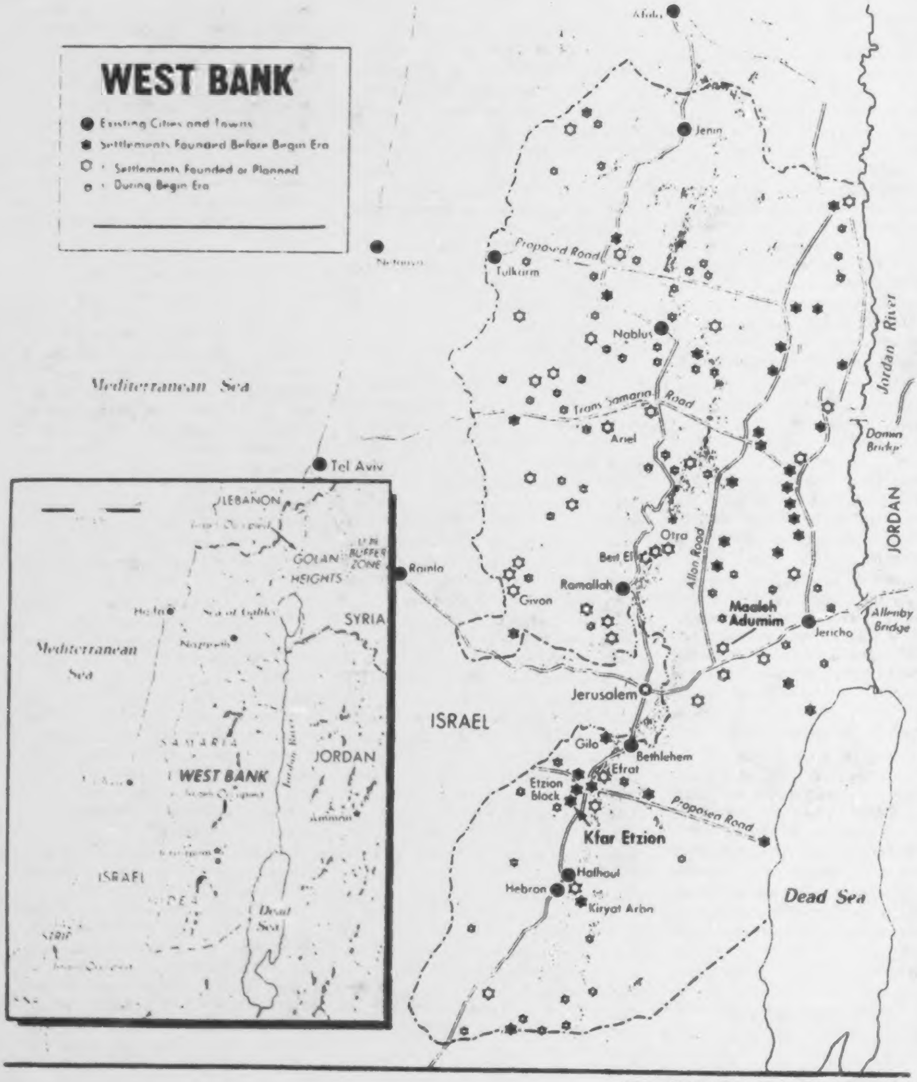
It is already happening in Maaleh Adumim, where the parents of young people who have purchased apartments but who are away serving in the Army stop by occasionally to keep tabs on their children's interests. "The circle is enlarging all the time," the official said. "That is the danger."

Harpaz and his friend Paz say they will not passively allow themselves to be counted by the government among the hard-core resisters to political compromise in the West Bank. They say they are ready to give back large chunks of it to the Arabs in return for peace and will encourage their neighbors in Maaleh Adumim to think along the same lines.

But Paz, who has lived in the community since August, said there is a certain tension in Maaleh Adumim on the subject of West Bank politics and defensiveness among the residents about the town's right to be where it is. In a country that prides itself on its openness and freewheeling style of political debate, the two men only reluctantly provided their full names to an interviewer and would not allow the use of their wives' names.

They both spoke in terms of being "trapped." Their mortgages contain a provision imposing a heavy financial penalty if they leave Maaleh Adumim in the next five years, a factor that undoubtedly will hold them and others in place while the government aggressively pursues its settlement expansion policies.

"We are part of an annexation movement that we are against," Harpaz said. "We find ourselves supporting a movement that is a disaster for Israel, morally and physically."


WEST BANK
● Existing Cities and Towns
✱ Settlements Founded Before Begin Era
✡ · Settlements Founded or Planned
○ · During Begin Era
Afula
Jenin
Netanya
Proposed Road
Tulkarm
Nablus
Mediterranean Sea
Trans Samaria Road
Ariel
Tel Aviv
Jordan River
Damia Bridge
JORDAN
Ofra
Beit El
Allon Road
Ramla
Ramallah
Givon
Maaleh Adumim
Jericho
Allenby Bridge
Jerusalem
ISRAEL
Gilo
Bethlehem
Efrat
Etzion Block
Proposed Road
Kfar Etzion
Halhoul
Hebron
Kiryat Arba
Dead Sea
LEBANON
GOLAN HEIGHTS
U.N. BUFFER ZONE
SYRIA
Haifa
Sea of Galilee
Nazareth
Mediterranean Sea
SAMARIA
WEST BANK
Jordan River
JORDAN
Amman
ISRAEL
JUDEA
Dead Sea
STRIP

By Dave Cook and Richard Furno—The Washington Post

Appendix C

The New York Times Wednesday, June 30, 1982

'78 Pact Said to Limit Israeli Use of Cluster Bombs

By CHARLES MOHR

Special to The New York Times

WASHINGTON, June 29 — Some United States officials said today that Israel had agreed in 1978 not to use American-made cluster bomb units except in combat with two or more "Arab states" and that Israel's admitted use of the weapons in recent fighting with Syria and the Palestine Liberation Organization might constitute a violation of the agreement.

However, this would have little practical effect unless President Reagan made a formal legal finding that a violation was "substantial," or both Houses of Congress adopt a joint resolution declaring Israel ineligible to receive United States arms. It is doubtful that Mr. Reagan will make such a finding and the possibility that Congress would approve such a resolution is also in doubt.

Cluster bomb units is the name for a type of weapon in which hundreds of bomblets are packed into a canister dropped from an aircraft. When a small explosion opens the canister in midair, the bomblets are spread over an area that is usually several hundred feet in diameter.

United States military experts said that the two types of American cluster bomb weapons that Israel possessed were not designed as antipersonnel weapons and would not be particularly lethal or suitable if employed in that role.

Use Acknowledged by Generals

One of the systems is an antitank cluster bomb, but the officials were unsure whether this was the one used by Israel in the recent fighting in Lebanon.

Two Israeli generals have acknowledged in recent days that some cluster bombs were used by the Israeli forces.

American officials said the 1978 agreement on Israeli use of cluster bombs was the third such accord reached, each one more tightly worded by the United States than the previous one. The agreement itself is secret, but several officials said it contained the plural description "Arab states."

Israel itself vigorously denies that the P.L.O. qualifies as a nation state, and even Palestinian sympathizers would tend to agree.

Cluster bomb units were developed in the 1960's, and the earliest American models employed in Vietnam used powerful little bomblets with considerable power to kill personnel. Several Western nations and the Soviet Union now make a variety of cluster bomb.

One Type No Longer Produced

One of the two American systems possessed by the Israelis, known as C.B.U. 58, is no longer in production by the United States. The other, known as the Mk 20 "Rockeye," is an antitank cluster bomb.

The C.B.U. 58 system, which American officials suspect was the type used in Lebanon, consists of an aluminum canister about seven feet long, hinged near the the rear tail fins, and packed with 650 spherical bomblets 2.17 inches in diameter — about half an inch larger in diameter than a golf ball.

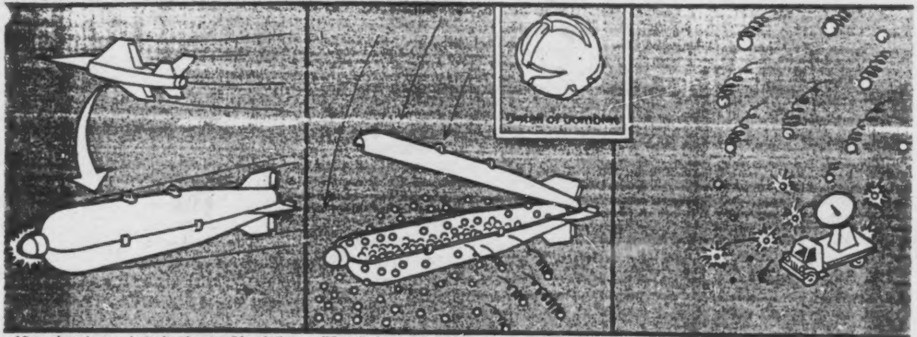
A nose fuse on the bomb-shaped canister can be activated as a time fuse or as a radar proximity fuse, which is detonated when near a radar transmitter. When the small fuse explodes, air resistance opens the upper and lower halfs of the canister like a clamshell and the bomblets are thrown out, falling to earth in a doughnut pattern. The size of the impact area varies according to the altitude from which the bomb is dropped, but would usually be about 400 feet long, experts said.

The small bomblets have ribs or "flutes" on their surfaces that cause them to spin rapidly. This arms the internal firing mechanism, allowing the bomblets to explode on impact.

The Mk 20 antitank system contains 247 larger and much more powerful bomblets in a similar, but not identical, canister.

The C.B.U. 58 bomblets are meant primarily to disable "thin-skinned" vehicles and equipment such as trucks, radar antennas, the radar vans typically used by surface-to-air missiles and similar facilities. Although troops or civilians caught in the open could suffer significant casualties from an attack, one American expert said, "I would not select this system as an antipersonnel weapon."

How a Cluster Bomb Works



After a plane drops a cluster bomb, a small fuse in the nose of the canister is detonated, either as a radar proximity fuse, detonated near a radar transmitter, or as a time fuse.

When the fuse explodes, air resistance opens the hinged canister, and 650 bomblets, each slightly larger than a golf ball, are released. Ribs on the spheres cause them to spin rapidly as they fall.

The spinning motion arms the firing mechanism, and the bomblets explode on impact, covering an area about 400 feet in diameter. A usual target, according to American experts, would be a radar van or truck.

Appendix D

CHRISTIAN SCIENCE MONITOR January 26, 1983

US Marine-Israeli relations tense

By Robin Wright
Special to The Christian Science Monitor

Beirut

Tension between United States and Israeli officials over the slowdown in resolving the Lebanese crisis is being matched on the ground by what are being interpreted as "challenges" to the US Marines by Israeli forces, according to sources close to the multinational peacekeeping force.

A series of confrontations over the past three weeks led to private communications from the US to Israel to cease attempts to cross into marine-controlled territory around Beirut airport.

But the appeal not to provoke an issue was apparently ignored. A subsequent incident last week led both the State Department and the Pentagon to go public with complaints about "irresponsible" actions.

Last week, a 15-man Marine "reaction force" was ordered on full alert, deployed in firing positions, when a two-jeep Israeli patrol attempted twice to cross into the US zone.

One marine officer was actually "nudged" by an Israeli jeep, but he held firm until the patrol departed 10 minutes later. As a result, officers have "reemphasized the rules of engagement" and "certain tactical considerations" to all 1,200 marines who man a buffer zone between west Beirut and the Israelis.

The incidents began when an Israeli patrol broke through a barbed wire US boundary line. Troops claimed they had merely gotten lost, a reason first accepted as credible.

But the following day, two attempts were made to cross into the US area. One involved an Israeli colonel who demanded to speak to US Marines commander, Col. Tom Stokes. The requests were refused, and the officer was referred to diplomatic channels.

One source close to the multinational peacekeeping force has said that the actions were "not compatible to the atmosphere of cooperative negotiations for a lasting peace" in Lebanon.

The source went further, suggesting that the repeated moves appeared to be a reaction to US pressure and the "kneel to no one attitude" of the Begin government.

"While Israeli diplomats are making certain points at the table, the IDF (Israeli Defense Force) is doing the same thing on the ground. I do not believe this is a coincidence," the source said.

Although the Pentagon originally played down the confrontations as "not a serious matter," Defense Secretary Casper Weinberger said in a television interview Friday, "We are worried about isolated incidents of that kind that could grow into something much more serious."

That concern is genuine, in light of a brief firefight last month between Israeli and Lebanese forces that left two Lebanese dead and one Israeli injured. Local investigators feel the Lebanese soldier started the shootout, but diplomats said the Israelis were out of bounds and should not have been traveling on the east Beirut road.

An IDF spokesman was quoted Sunday in The Jerusalem Post as saying that at no time have Israeli forces entered marine territory, even though a number of times "terrorists" have fled to the marine area after committing acts of sabotage.

US sources vehemently deny that saboteurs have sought shelter in their zone.

Following a rocket attack Monday on a building in Khalde, near the site of Israeli-Lebanese negotiations, the Israeli command issued a statement saying the rocket had been fired from an area under the control of the marines. A spokesman said the marines did not detect any rockets being fired from the area.

The incidents underline the importance of the marines in the multinational force, say diplomats, since the Israelis have not heeded appeals for cooperation with peacekeeping forces, such as United Nations troops in southern Lebanon. During their four-year presence, the UN troops were never able to manage to achieve Israeli troop withdrawal.

Appendix E

NATIONAL ASSOCIATION OF ARAB AMERICANS

1825 Connecticut Avenue, Suite 211, Washington, D.C. 20009 202-797-7757

RESEARCH ALERT RESEARCH ALERT RESEARCH ALERT

HIGH RISK OF ISRAELI INVASION OF LEBANON

Danger to U.S.:	Threat of Renewed Mideast War Escalation of Violence in the Region Potential Superpower Confrontation Polarization of Middle East Damage to U.S. Relations with Moderate Arab States Expansion of Soviet Influence in the Region Efforts to Form Strategic Concensus Undermined
Recommendations:	Unequivocal U.S. Opposition Notification of Israel that Invasion will meet with Severe U.S. Response

A broad spectrum of evidence suggests that Israel may attempt to undermine peace efforts in the Middle East by reinitiating hostilities in the region through an invasion of Lebanon--possibly before the scheduled withdrawal from the Sinai on April 25, 1982. Israeli troop movements, statements of Arab and Israeli officials, and long standing desire by Israel for expanded water resources and additional land point to the likelihood of an imminent Israeli invasion. Such an invasion would be in contravention of the cease-fire agreement, which stipulated that hostile action between Lebanese and Israeli territories must cease.

Unequivocal U.S. opposition to an invasion of Lebanon must be expressed to Israel by the Administration and Congress before it is carried out. Israel must be notified that an invasion of Lebanon will be considered a substantial violation of the U.S. Arms Export Control Act and will be met with swift and certain U.S. response, including one or more of the following:

1. Suspension of delivery of sophisticated U.S. weaponry.
2. Placing of conditions on future economic and military aid to Israel.
3. Suspension of unexpended Foreign Military Sales (FMS) credits.
4. Denial of future FMS requests.
5. Removal of favorable FMS repayment terms.

INTRODUCTORY PERSPECTIVE

The cease-fire in Lebanon followed an increase in military activity across the Lebanese-Israeli border from both directions. The escalation of the violence was initiated by Israel:

> "But then, last June, for reasons which had little if anything to do with the situation along the northern front, which was relatively quiet, Israel initiated a

> series of strikes against targets in Lebanon which escalated to a point which made American intervention inevitable. A cease-fire was negotiated, if not directly with the PLO then certainly including the PLO, putting a stopper on Israel's policy of pre-emption."
>
> --Hirsh Goodman in
> The Jerusalem Post
> February 5, 1982

The information gathered in this RESEARCH ALERT indicates that renewed Israeli attacks on Lebanon are imminent. Data for analysis is presented under the following sections:

1. Statements by U.S. Government officials p.3
2. Statements by Israeli Government officials p.5
3. Underlying motivations for invasion of Lebanon p.8

STATEMENTS BY U.S. OFFICIALS

Following the Israeli bombing of Beirut on July 17, 1981, which left over 300 people dead, a cease-fire was arranged to end the escalation of violence between Israel and Lebanon. The public announcement of the cease-fire was made in Jerusalem by U.S. Special Envoy Philip Habib on July 24, 1981:

> "I have today reported to President Reagan that, as of 1330 hours local time, July 24, 1981, all hostile military action between Lebanese and Israeli territory, in either direction, will cease."
>
> --Baltimore Sun
> July 25, 1981

Contrary to Israeli contentions, the cease-fire agreement, as announced by Habib, did not indicate that fighting between Lebanese factions or between Lebanese factions and the PLO came under the terms of the cease-fire. No foreign power should intervene in the situation in Lebanon. Rather, Lebanon must be able to settle its internal problems without outside interference. Commenting in that regard, State Department Spokesman Dean Fischer stated on the same day:

> "Our objective is to enable the central Lebanese Government to maintain control over all of the areas of the country that are in dispute or where violence has flared."
>
> --The New York Times
> July 25, 1981

Press reports in January and February of 1982, have warned that Israel was on the brink of invading Lebanon, even though cross border hostilities had not taken place for months. This development came only a short time after Habib returned to Washington from the Middle East and met with President Reagan on December 11, 1981. Later that day...

> Habib told reporters that all parties want a continuation of the four-and-one-half month cease-fire. He said that even those who had first resisted it have now come to feel a "general satisfaction" with the truce. "I found during my visit, and I so told the president [sic], a general desirability that Lebanon should not be the centre of either military or political upheaval that would create problems throughout the region," Habib said.
>
> --The Jerusalem Post International Edition
> December 13-19, 1981

Early in 1982, Israel began to charge that the cease-fire was being violated. At the height of tensions, Israeli Defense Minister Ariel Sharon listed a number of alleged PLO "violations" of the cease-fire. Asked about this list, State Department Spokesman Dean Fischer replied:

> We don't want to characterize them by the word "violations".

--Dean Fischer
U.S. State Department
February 25, 1982

Responding the next day to warnings by Israeli Ambassador to the U.S. Moshe Arens that Israel might have "no other choice but a preemptive strike" across the border because of the alleged "violations", State Department Spokesman Dean Fischer replied:

> "Violence, from any quarter, can only exacerbate the Arab-Israeli conflict and perpetuate the difficulties faced by all concerned in that troubled part of the world. The U.S. cannot condone violent attempts to solve political problems of any kind. History has proven time and time again that violence begets violence, and no solution can be found through armed attacks in the Middle East. Ambassador Habib is in the area now on his mission to try to help strengthen the cessation of hostilities.
>
> On the issue of arms, we are opposed to any arms build-up in southern Lebanon. We are not aware of any major infusion of arms from any source since last July that could be construed as significantly altering the balance of force. Obviously, this is something we continue to watch closely."

--Dean Fischer
U.S. State Department
February 26, 1982

STATEMENTS BY ISRAELI OFFICIALS

Israel's devotion to the cease-fire since its inception has not been consistent. Thus, on August 27, 1981, Prime Minister Menachem Begin, asserting that the PLO was adding weapons to its arsenal and contending incorrectly that this was a "violation" of the cease-fire agreement, stated that Israel would not attack PLO emplacements:

> "As long as they are silent, we won't. If they should shoot, that is a different story. But as long as they don't shoot, we won't. As I said, we would like the cease-fire to go on indefinitely."

--The New York Times
August 28, 1981

Nevertheless, a few months later Israeli Foreign Minister Yitzhak Shamir warned that:

> "Israel feels free to respond even today, and maintains its freedom of action," he said. "We will decide what to do and when to do it...We see a limit to our patience."

--The Jerusalem Post International Edition
December 6-12, 1981

Israel's conception of "freedom of action" appears to include entering Lebanese territory and violating Lebanese sovereignty, despite the cease-fire: An Associated Press report from Tel Aviv on January 20, 1982, revealed:

> Israeli forces held unusually intensive exercises with tanks and mortar weapons in southern Lebanon overnight, a spokesman for U.N. peacekeeping forces in the area said Wednesday.
>
> The United Nations Interim Forces in Lebanon spokesman said that Israeli troops had shot 40,000 rounds of small arms fire during all-night exercises in the Christian militia enclave village of Yarine and Marouahine, 14 and 22 kms east of the U.N. headquarters at Naqcura. He said Israeli forces had been exercising in the border enclave of their rightist militia allies for several weeks but that the overnight maneuvers had been "more concentrated and intensive" than in the past.

--Arab News
January 21, 1982

Israel has sought to publicize alleged "violations" of the cease-fire by the Palestinians at every opportunity, but Israeli violations go virtually unreported or are routinely denied. Reports of Israeli violations, furthermore, often fail to appear in the U.S. press. Thus, on January 24, 1982, the Associated Press reported the following:

> An Israeli warship and several gunboats opened fire on seven Lebanese fishing boats inside Lebanese territorial waters, sinking two of the unarmed craft and heavily damaging the other five, press and radio reports here said on Sunday.
>
> The Israeli military command denied the story. A spokesman Sunday refused to say if Israeli vessels had been in the area at the time.

--Arab News
January 25, 1982

It appears as if Israel is searching for a pretext to invade Lebanon.

> "Begin is waiting for an excuse to go into Lebanon," the Survey was told by one well-connected Israeli official. "He will take action if one Katyusha is fired on Kiryat Shimona," he added.

--Middle East Policy Survey
January 15, 1982

That excuse was nearly found when several men crossed into Israel from Jordan on January 30, 1982. Defense Minister Ariel Sharon indicated that Israel regarded the incursion as a violation of the cease-fire (even though it occurred 100 miles from the Lebanese border), saying:

> "The terrorist operations are conceived in Lebanon--that is where implementation begins."

--The Christian Science Monitor
February 8, 1982

Sharon and Chief of Staff Rafael Eitan had been pressing for an assault on Lebanon, according to Time magazine (February 15, 1982), for weeks. In the end, however, they were overruled by Begin.

Despite the eagerness of the Israeli government to break the cease-fire and move into Lebanon, not all Israelis were inclined to support the renewal of open hostilities. Israelis living along the border with Lebanon were urging the government not to launch a strike at Palestinians in Lebanon.

> The chairman of the Upper Galilee Regional Council, Abraham Broshi, said that if the government wanted to retaliate against the incursion it should strike into Jordan from where

> the infiltrators came and not into southern Lebanon. "The cease-fire along the Lebanese border has not been violated," he said.
>
> --The Christian Science Monitor
> February 8, 1982

But if the attack has been postponed, the uncertainty as to Israel's adherence to the terms of the cease-fire remains. Yosef Harif referred to a note from Begin to President Reagan:

> "Begin did not, however, say that Israel will not attack unless attacked. What he did write to Reagan, surely in accordance with his initial thinking, was that Israel will not attack (in Lebanon) unless "we are faced with a deliberate provocation."
>
> --Yosef Harif
> Ma'ariv
> February 12, 1982
> quoted in FBIS
> February 16, 1982

Asked what provocations would elicit Israeli military reaction, Foreign Minister Yitzhak Shamir replied:

> "I do not think that I have to be precise in detailing these things. This depends on our decision."
>
> --IDF Radio
> Tel Aviv
> February 12, 1982
> quoted in FBIS
> February 17, 1982

Moshe Arens, Israeli Ambassador to the United States, warned on February 25, 1982, that an alleged Palestinian buildup of arms in south Lebanon might leave Israel with "no other choice but a preemptive strike" across the border. (Los Angeles Times, February 26, 1982). He ominously added: "I would almost say it's a matter of time." (The New York Times, February 26, 1982).

U.S. officials at the State Department (see page 4) and diplomats in the Middle East disputed Arens' assertions. In a report from Lebanon, Edward Cody revealed:

> Several Western military attaches who monitor Yasser Arafat's Palestine Liberation Organization said the Israeli charges of a PLO buildup are unsupported by the amount and quality of equipment acquired by the organization's various guerrilla groups in recent months. A notable guerrilla arms buildup begun last year had trailed off after July, according to Western attaches and PLO officials.
>
> --The Washington Post
> March 1, 1982

On the other hand, Israel has not declined to send armaments to its surrogates in south Lebanon: The Washington Post reported that the Phalange Party militia in Lebanon had been...

> equipped with a limited number of Sherman tanks and the newer, more sophisticated super Sherman tanks reportedly supplied by Israel. The Israeli Army also has given a few super Sherman tanks to Haddad's forces in the south, U.N. observers say, but

> neither side's armor is very useful in the hilly border region, in the assessment of military analysts.
>
> --*The Washington Post*
> *March 1, 1982*

(The *Post* inexplicably failed to question whether the supplying of such tanks was in violation of the U.S. Arms Export Control Act.)

Available evidence indicates that Israel is waiting for a chance to renew hostilities despite adherence by the Palestinians to the cease-fire. Israeli allegations of a Palestinian arms buildup have been highly exaggerated in order to give a pretext for invading Lebanon and to soften the opposition of the U.S. government and American public opinion to such a move. The tragedy of this situation lies in the fact that it is in the interests of all concerned to preserve peace in the Middle East.

> United Nations officials at peacekeeping headquarters in Naqoura, only four kilometers from the Israeli border, are admittedly concerned. But spokesman Timur Goksel said that since July 28 the ceasefire "has held and there have been no firing incidents."
>
> ...
>
> U.N. sources, who declined to be identified because of the peacekeepers' role as middlemen, said both the commandos and Israel had a vested interest in maintaining the ceasefire. "The Palestinians are demonstrating responsibility and proving they can be depended upon to deliver, while Arafat demonstrated his authority over the myriad of factions fighting in the south," said one U.N. official. "The Israelis do not have to worry about their settlements in the north being terrorized."
>
> --*Arab News*
> *February 5, 1982*

UNDERLYING MOTIVATIONS FOR INVASION

Israel contends that an invasion of Lebanon would weaken or obliterate the strength of the PLO in Lebanon. Israeli Defense Minister Ariel Sharon has calculated the repercussions of the invasion to be wide ranging. They would include the possibility of the emergence of a Palestinian state in Jordan:

> To bolster his aims, Sharon, with the backing of Foreign Minister Yitzhak Shamir, is also touting a political rationale for such a maneuver. He believes that the P.L.O. would have no place to go except Jordan, from which it was forcibly expelled in a brutal crackdown by King Hussein's military in 1970-71. With a little assistance from Israel, Sharon believes, the P.L.O. could overthrow King Hussein and establish a Palestinian state in Jordan.
>
> ...In Sharon's view, if the P.L.O. were to take over Jordan with Israel's backing, such a Palestinian state would be more cooperative than one centered on the West Bank.
>
> --*Time*
> *March 1, 1982*

Sharon's views have not been accepted by Begin, but they are important coming from such a high Israeli official. Joseph Kraft, the syndicated columnist, after meeting with Israeli officials and others, has indicated that the Israeli invasion might lead to further instability in the region, including the overthrow of Syrian President Hafez al-Assad:

> The theory is that the PLO and the Syrians would be forced to quit Lebanon, with Assad toppled from office. In that case, Syria would implode.

Joseph Kraft in
The Washington Post
March 16, 1982

It is difficult to ascertain how the toppling of either the Jordanian or Syrian Head of State would strengthen the possibilities for peace in the region or enhance Israel's security.

If Israel's military objectives in undertaking the invasion of Lebanon have been emphasized in recent weeks, its designs on the water of the Litani River in southern Lebanon have been less publicized. Thomas Stauffer reported this aspect of Israel's interest in expanding its territory:

> However, the Golan Heights are even more important in the context of Israel's future water policy as a steppingstone - quite literally - to the liberation or occupation of the southeastern corner of the Lebanon and physical control of the Litani. While estimates of the available flow from the Litani differ considerably, Israeli sources argue that a minimum of 400 million cubic meters yearly could be diverted into Israel - or as much as 700 million if the Lebanese dam upstream could be destroyed or its spillways opened.
>
> The Litani River has long been a target (since the early Zionist settlements in Palestine under the British mandate) but that target - essentially academic until recently - now adds an ever increasing urgency to the older designs upon the Litani waters.
>
> Plans for acquiring the Litani were articulated soon after Israel came into being in 1948, and the recently published diaries of Moshe Sharret reveal such Cabinet-level discussions in the mid-1950s.

--Thomas Stauffer
The Christian Science Monitor
January 20, 1982

Lebanese Minister of Information Michel Edde, stating that an Israeli assault on Lebanon was "imminent--only a matter of weeks," confirmed that Lebanon fears Israel's designs on expanded water supplies:

> He emphasized that the Israeli objectives must include moving far into the Bekaa Valley well above the Karaoun Dam because: "The waters of the Litani River are useless without control of the dam."

--The Christian Science Monitor
February 8, 1982

Appendix F Part 1

NATIONAL ASSOCIATION OF ARAB AMERICANS

1825 Connecticut Avenue, Suite 211, Washington, D.C. 20009 202-797-7757

ISSUE BACKGROUND

THE REAGAN PEACE INITIATIVE AND THE ISRAELI RESPONSE: A COMPARISON

INTRODUCTION

Since September 2, 1982 Israel's reactions to U.S. positions enunciated in an effort to advance the peace process have been consistently rejectionist. A representative sampling of the dichotomy between the Reagan Peace Plan and the official Israeli response to specific points in dispute is capsulized below.

U.S. POSITION	ISRAELI POSITION
JEWISH SETTLEMENTS	
"The United States will not support the use of any additional land for the purpose of settlements during the transition period. Indeed, the immediate adoption of a settlement freeze by Israel, more than any other action, could create the confidence needed for wider participation in these talks. Further settlement activity is in no way necessary for the security of Israel and only diminishes the confidence of the Arabs that a final outcome can be freely and fairly negotiated." U.S. President Ronald Reagan September 2, 1982	"Settlement is a Jewish right which is not in question and is an integral part of our national security. There will then be no freeze on settlements. We will continue to establish them in accordance with our natural right." Israeli Cabinet Secretary Dan Meridor September 2, 1982
ISRAELI SOVEREIGNTY OVER THE WEST BANK	
"It is the President's belief that the Palestinian problem cannot be resolved through Israeli sovereignty or control over the West Bank and Gaza. Accordingly, we will not support such a solution." U.S. Secretary of State George Shultz September 9, 1982	"There is nothing in the Camp David accords that prevents the application of Israeli sovereignty to Judea, Samaria and the Gaza Strip at the end of the transition period which begins upon the establishment and operation of the self-governing authority, the administrative council." Israeli Cabinet Secretary Dan Meridor September 2, 1982
DEFINITION OF AUTONOMY	
"(We support) the definition of full autonomy giving the Palestinian inhabitants real authority over themselves, the land, and its resources subject to fair safeguards on water." Secretary of State George Shultz September 9, 1982	"There is no such definition in the Camp David accords...In the lengthy discussions at Camp David it was made absolutely clear that the autonomy does not concern territory but inhabitants." Israeli Cabinet Secretary Dan Meridor September 2, 1982

U.S. POSITION	ISRAELI POSITION
SECURITY ON THE WEST BANK	
"...We have told our partners that we have supported and will continue to support progressive Palestinian responsibility for internal security based on capability and performance." Secretary of State George Shultz September 9, 1982	"There is no doubt at all that if domestic security is not Israel's responsibility, the terrorist organization called the PLO, even after its defeat in Lebanon by the IDF, will act to cause continual bloodshed among Jews and Arabs alike. This is a question of life or death for Israeli citizens." Israeli Cabinet Secretary Dan Meridor September 2, 1982
JERUSALEM INHABITANTS	
"(We have supported) participation by the Palestinian inhabitants of East Jerusalem in the election for the West Bank/Gaza authority." Secretary of State George Shultz September 9, 1982	"There is no mention in the Camp David accords of such a voting right. Such a right means one thing only: the redivision of Jerusalem into two authorities, one authority being the State of Israel and the other authority being the administrative council of autonomy." Israeli Cabinet Secretary Dan Meridor September 2, 1982
A PALESTINIAN STATE	
"We will not support the formation of a Palestinian state in those negotiations. There is no foundation of political support in Israel or in the United States for such a solution and peace cannot be achieved by that route." Secretary of State George Shultz September 9, 1982	"Were the American plan to be implemented there would be nothing to prevent King Hussein from inviting his new found friend Yasser Arafat to come to Nablus and hand over the rule to him. Thus would come into being a Palestinian state which would conclude a pact with Soviet Russia and arm itself with every kind of modern weaponry." Israeli Cabinet Secretary Dan Meridor September 2, 1982
TIES TO JORDAN	
"(We support) the inclusion of economic, commercial, social and cultural ties between the West Bank, Gaza and Jordan." Secretary of State George Shultz September 9, 1982	"In all the articles of the Camp David accords there is no mention of such ties." Israeli Cabinet Secretary Dan Meridor September 2, 1982

Appendix F Part 2

NATIONAL ASSOCIATION OF ARAB AMERICANS

1825 Connecticut Avenue, Suite 211, Washington, D.C. 20009 202-797-7757

ISSUE BACKGROUND

THE FEZ SUMMIT PEACE PLAN AND THE REAGAN PEACE INITIATIVE: A COMPARISON

INTRODUCTION

One feature of the Reagan peace initiative that received a particularly positive response by most Arab governments was its timing: the initiative was announced less than a week prior to the convening of a scheduled Arab Heads of State Summit at Fez, Morocco. At that conference, many of the same issues addressed in the Reagan Plan were subjected to discussion and debate by those in attendance. A comparison of the similarities and differences in positions of the two Plans, as well as the notation of important omissions in the American position, is presented below.

ARAB POSITION	U.S. POSITION
Excerpted from the official English-language text which appeared in the Washington Post September 10, 1982.	
1. The withdrawal of Israel from all Arab territories occupied in 1967, including Arab Al Quds (East Jerusalem).	The American position is based on Security Council Resolution 242, "withdrawal of Israeli armed forces from territories of recent conflict;" "The extent of the withdrawal will be significantly influenced by the extent and nature of peace and security arrangements offered in return." "We will fully support the position that Jerusalem must be undivided and that its status must be determined through negotiations. We do not recognize unilateral acts with respect to final status issues." Secretary of State George Shultz September 9, 1982
2. The dismantling of settlements established by Israel on the Arab territories after 1967.	"The status of Israeli settlements must be determined in the course of the final negotiations. We will not support their continuation as extraterritorial outposts, but neither will we support efforts to deny Jews the opportunity to live in the West Bank and Gaza under the duly constituted governmental authority there, as Arabs live in Israel." "(We support no) dismantlement of existing settlements..." Secretary of State George Shultz September 9, 1982

	ARAB POSITION	U.S. POSITION
3.	The guarantee of freedom of worship and practice of religious rites for all religions in the holy shrines.	(No direct mention of this point in the Reagan plan, but the U.S. has always supported such a guarantee.)
4.	The reaffirmation of the Palestinian people's right to self-determination and the exercise of its imprescriptible and inalienable national rights under the leadership of the Palestine Liberation Organization (PLO), its sole and legitimate representative, and the indemnification of all those who do not desire to return.	"We believe that the Palestinians must take a leading role in determining their own future and fully support the provisions in the Camp David Agreement providing for the elected representatives of the inhabitants of the West Bank and Gaza to decide how they shall govern themselves consistent with the provisions of their agreement in the final status negotiations." Secretary of State George Shultz September 9, 1982
5.	Placing the West Bank and Gaza Strip under the control of the United Nations for a transitional period not exceeding a few months.	(No mention of a role for the United Nations in the Reagan plan.)
6.	The establishment of an independent Palestinian state with Arab Al Quds (East Jerusalem) as its capital.	"We will also not support the formation of a Palestinian state in those negotiations. There is no foundation of political support in Israel or in the United States for such a solution and peace cannot be achieved by that route. The preference we will pursue in the final status negotiations is some form of association of the West Bank with Jordan." Secretary of State George Shultz September 9, 1982
7.	The Security Council guarantees peace among all states of the region, including an independent Palestinian state.	This firm proposal "provides an implicit... recognition of Israel... But it isn't enough. All Arab nations must state with clarity, that Israel has a right to exist." Vice President George Bush September 23, 1982
8.	The Security Council guarantees the respect of these principles.	(No mention of a role for the United Nations in the Reagan plan.)

Appendix G Part 1

THE BOSTON GLOBE December 29, 1982

Israeli tells of orders to beat Arabs

Court-martial hears major

Reuter

TEL AVIV – Israeli soldiers were given orders to harass and beat up Palestinian residents during last March's explosion of unrest in the occupied West Bank, a senior Israeli officer told a court-martial yesterday.

The evidence came from Maj. David Morcaz, then deputy military governor of Hebron, the second-largest town on the West Bank.

The major, who is on trial for mistreating local residents, also described how young Israeli recruits and seasoned reservists lost control on one occasion and struck and kicked defenseless detainees.

"It was dark. The Arab students were shouting, cursing and crying. There were many soldiers and they had got completely out of control," he said.

Morcaz said he personally was ordered to beat up Arabs by the West Bank military commander, Brig. Ya'acov Hartawi.

"But I know the orders came from higher up, from the chief of staff," he told the three military judges.

Unprecedented violence erupted on the West Bank in March after Israeli occupation authorities dismissed the leading Palestinian mayors in a crackdown on sympathizers of the Palestine Liberation Organization.

In a previous hearing of the court-martial, Maj. Yuval Merya testified that he was present at a briefing in which the military governor of Hebron said there were direct orders from Defense Minister Ariel Sharon to enter riot-torn Arab schools and "hit the pupils hard."

Morcaz, wearing the red beret of the elite paratroops brigade, said Hartawi told him to send soldiers into Dahisha refugee camp near Bethlehem March 15.

"He told me to order the soldiers to arrest all the males aged 18-25, bring them to a nearby school and put six to eight in each classroom," Morcaz said. "Soldiers with batons were then to go in and beat them up. They were to hit them on the legs and knees and smash the watches on their wrists."

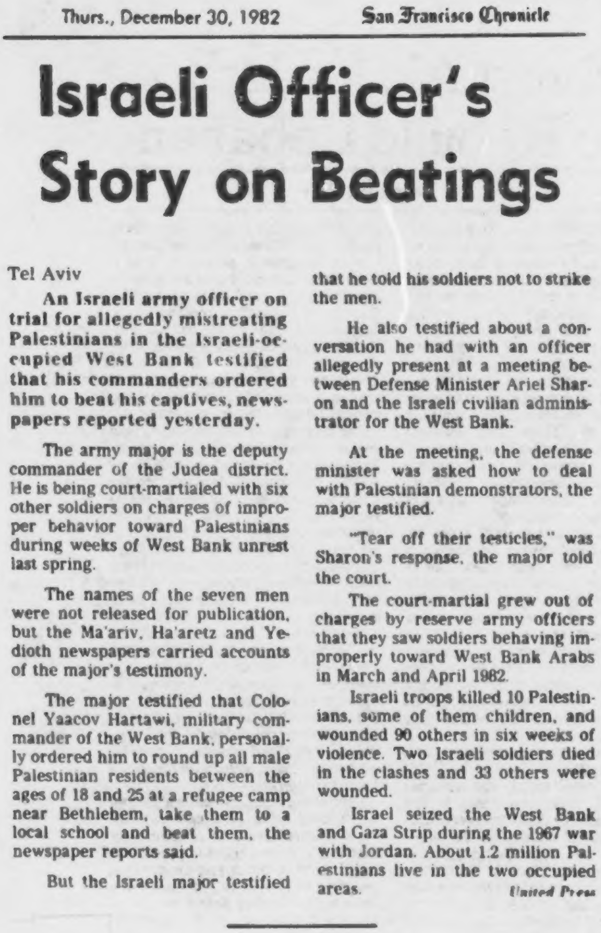
He said he could not face passing on all these orders and omitted the instruction to smash wristwatches.

Morcaz said the army had orders to harass the West Bank population in general, not just those involved in anti-Israeli demonstrations. Troops were authorized to hold suspects for 18 days without trial, shoot at the legs of those who broke curfew and arrest village leaders.

"If a school caused trouble, we seized local buses, made all the pupils get aboard and drove them to a remote place," he said. "Then we made them get off and drove away, leaving them to walk home."

The trial was adjourned to next week.

Appendix G Part 2



Thurs., December 30, 1982 San Francisco Chronicle

Israeli Officer's Story on Beatings

Tel Aviv

An Israeli army officer on trial for allegedly mistreating Palestinians in the Israeli-occupied West Bank testified that his commanders ordered him to beat his captives, newspapers reported yesterday.

The army major is the deputy commander of the Judea district. He is being court-martialed with six other soldiers on charges of improper behavior toward Palestinians during weeks of West Bank unrest last spring.

The names of the seven men were not released for publication, but the Ma'ariv, Ha'aretz and Yedioth newspapers carried accounts of the major's testimony.

The major testified that Colonel Yaacov Hartawi, military commander of the West Bank, personally ordered him to round up all male Palestinian residents between the ages of 18 and 25 at a refugee camp near Bethlehem, take them to a local school and beat them, the newspaper reports said.

But the Israeli major testified that he told his soldiers not to strike the men.

He also testified about a conversation he had with an officer allegedly present at a meeting between Defense Minister Ariel Sharon and the Israeli civilian administrator for the West Bank.

At the meeting, the defense minister was asked how to deal with Palestinian demonstrators, the major testified.

"Tear off their testicles," was Sharon's response, the major told the court.

The court-martial grew out of charges by reserve army officers that they saw soldiers behaving improperly toward West Bank Arabs in March and April 1982.

Israeli troops killed 10 Palestinians, some of them children, and wounded 90 others in six weeks of violence. Two Israeli soldiers died in the clashes and 33 others were wounded.

Israel seized the West Bank and Gaza Strip during the 1967 war with Jordan. About 1.2 million Palestinians live in the two occupied areas.

United Press

Appendix H Part 4

THE NEW YORK TIMES August 25, 1982

Divert Aid for Israel To Rebuild Lebanon

By George W. Ball

PRINCETON, N.J. — Now that the drama of the Palestine Liberation Organization in Lebanon is in its final act, it is time to think of the morning after. Who is to pay Lebanon for the damage wrought by Israel's roving Air Force and rampaging Army? Equipped with the finest planes, tanks and guns that American factories can produce, they have devastated a nation; killed or wounded civilian men, women and children, and maimed many for life. They have rendered thousands — perhaps hundreds of thousands — homeless. The cost of rebuilding, of compensating survivors and providing emergency shelter will require billions of dollars.

Though some Israeli spokesmen assert that the self-reliant Lebanese can carry the burden unassisted, that is merely black humor. Huge amounts of outside aid will be needed and, under international law, Israel, as the aggressor, would normally be expected to pay the bill. Arab states might have been considered liable for damages had they come to the defense of the P.L.O. But they did not. The Lebanese civilians did not ask the Israelis to destroy their houses and kill their children, and it would be immoral if they were left with no compensation.

But will Israel supply the resources required? If past experience is any guide, Israel will disclaim responsibility and pass the burden to the United States. Yet that would be carrying presumption beyond tolerable limits. How unfair if American taxpayers, at a time of recession and large-scale unemployment, were to be made the fall guys as if America were responsible for the carnage.

We did not wage this war, nor did we ask Israel to wage it. Having created a pretext, the Israelis invaded Lebanon without our prior knowledge, choosing a moment when President Reagan was busy at the Versailles summit conference. Not only did they take our Government by surprise but also they misstated their objective — they were, they said, only clearing an area 25 miles north of their border.

In the name of humanity and decency, we should provide ample help for the Lebanese people; in the name of logic and justice, we should deduct the cost of that help from our annual subsidy to Israel.

That subsidy is large enough to help materially with Lebanon's reconstruction. For the past several years, it has amounted to almost one-fourth of our total foreign aid — which, for a country with a population less than that of Detroit, and only one-tenth of 1 percent of the world's population, suggests some distortion of values. Our Government's annual assistance to Israel amounts to roughly $2.7 billion — $750 per head for Israel's 3.5 million people. It is as if every American family of five gave Israel $70 a year — and, as the economist Thomas R. Stauffer contends in a forthcoming issue of the journal Middle East International, even that figure may be understated. If more Americans were aware of these calculations, it might add perspective to the current Federal budget argument.

The diversion of our subsidy to help pay the Lebanese people for the quantifiable costs of devastation would not, of course, recompense America for the political losses suffered by serving as Israel's diplomatic agent. By negotiating for the departure of the P.L.O. leaders while silently enduring the Begin Government's posturing and hectoring and its continued harassment of the Beirut populace, we have appeared as an accessory to Defense Minister Ariel Sharon's effort to destroy the Palestinian leadership. By failing to use the leverage provided by the occasion to request, as a reasonable *quid pro quo*, Israel's commitment to a genuine autonomy plan for the West Bank and future self-determination for the Palestinians, we have darkened the hope for a fair and decent solution of the Palestinian problem.

Past experience has shown that we can expect little gratitude from the current Government in Jerusalem. Israel will almost certainly press for a new supply of tanks and ammunition and cluster bombs to replace those it has used to destroy Beirut and for an increased subsidy to help meet the estimated $2 billion or more that the war has already cost its own hard-pressed economy. Indeed, before Israeli troops are fully withdrawn (there is increasing evidence they may plan to keep control of southern Lebanon up to and including the watershed of the Litani River — the last major water resource divertible into Israel) the sum could be more than twice that. Nor will the dispersal of the P.L.O. make Mr. Begin and his colleagues any more flexible in addressing the Palestinian problem. On the contrary, they will be even more obdurate and confirmed in their expansionist ambition. That was what happened when we ended the danger of a two-front war by neutralizing Egypt through the Camp David accords. To talk as if eliminating the P.L.O. leadership will improve the chances for a Palestinian settlement is fantasy.

George W. Ball was Under Secretary of State in the Kennedy and Johnson Administrations.

Appendix H Part 3

NEW STATESMAN August 20, 1982

LEBANON CRISIS

US stepped up arms for invasion

CLAUDIA WRIGHT reports from Washington on an 'extraordinary coincidence' of increased arms sales before Israel invaded

PENTAGON FIGURES, just released in response to a Freedom of Information Act request, reveal a massive surge of military supplies from the United States to Israel in the first three months of this year – as Israel planned the invasion of Lebanon.

As the table shows, in the first quarter of 1982 Israel took delivery of $217,695,000 worth of military equipment from the US. This is almost ten times the value of US military goods delivered to Israel in the same period of 1980. It is almost 50 per cent greater than the value of deliveries at the same time last year.

The main weapons accounting for the surge were ten F-15 aircraft (considerably more costly than the 14 F-16A aircraft delivered in 1981), 14 tank recovery vehicles, 19 self-propelled 155-mm howitzers, and over $6 million worth of bombs and ammunition.

The tank recovery vehicles have been extensively used in the fighting in Lebanon, and as US television has recorded, the 155-mm howitzers, shipped from the US early this year, have been the main source of artillery fire raining down on Beirut for weeks. Although the Pentagon has not yet released delivery figures for the second quarter of the year (April through June), a Defense Department spokesman has confirmed that 25 M-60 tanks were handed over to Israel in the month of May, and another 15 in June. The Defense Security Assistance Agency, which administers US foreign military sales, compiles detailed delivery figures for weapon types for each quarter. In the figures just released, going back to 1980, there is nothing comparable to this rate of tank shipments.

Another unusual item in the arms inventory delivered to Israel just before the war is listed in Pentagon data as 'guided bombs'. In the first quarter of 1982, Israel took delivery of 14 of these, at a total cost of $4.4 million. Bombs of this type, which have highly sophisticated guidance devices

US arms deliveries to Israel

Three-month period, January-March, 1980, 1981, 1982

	1980	1981	1982
Aircraft	22,308,000 (Two F-16A and spare parts)	142,454,000 (14 F-16A and spare parts)	187,604,000 (10 F-15 and spare parts)
Vehicles and weapons	1,704,000 (10 armoured cargo carriers, 2 anti-air artillery guns)	17,000 (Truck parts)	20,410,000 (14 tank recovery vehicles, 19 self propelled 155-mm. Howitzers)
Ammunition	278,000 (Heavy artillery cartridges)	1,068,000 (Heavy artillery cartridges)	6,725,000 (Guided bombs and other ammo)
Missiles	16,000 (Chaparral spare parts)	3,179,000 (6 harpoon anti-ship missiles)	127,000 (Chaparral spare parts)
Misc. support eqpt.	11,000	–	198,000
Training, maps, other assistance	412,000	1,300,300	2,831,000
Total	24,727,000	148,010,000	217,695,000

Figures in dollars. Source: US Defense Security Assistance Agency, Washington and delay fuses, are widely believed to have been used by Israel in the attack on the Iraqi nuclear reactor near Baghdad on 8 June 1981. One or more bombs of the same type were dropped on a multi-storey apartment building near Hamra Street, West Beirut, on 6 August.

The effect was devastating. The entire building was levelled in an instant, trapping or killing over 100 people. This bombing attack involved extraordinary precision by reportedly just two Israeli aircraft, operating over one of the densest sections of the city. Press reports indicate that the Israelis believed the building was a safe-house for Yasser Arafat, and that he may have slipped out of the building just before the attack.

Colonel Mark Foutch, a Pentagon spokesman, told the *New Statesman* on 11 June that there had been no surge in US arms deliveries to Israel before the war. He said it was impossible for this to occur in an arms programme that had been planned years in advance. Foutch refused to provide detailed delivery information, claiming this was classified.

The release of the details two months later indicates that at the very least an extraordinary coincidence has occurred between US weapons delivery schedules and Israeli military plans for Lebanon. Starting at least three months before the invasion commenced, the Pentagon must have seen the build-up and known that Israel was stockpiling at a massive and costly rate. It is inconceivable US officials failed to anticipate what this stockpile was for.

On 14 August General Ariel Sharon told an Israel radio interviewer that on his last visit to Washington in May, he had informed Defense Secretary Weinberger and the then Secretary of State Haig that Israel 'must act in Lebanon'. Sharon made no bones about the fact that Weinberger and Haig knew well in advance that Israel intended to invade Lebanon, and that the Americans approved.

Weinberger's office responded by issuing a statement that he had been briefed by Sharon 'on the security situation as Mr Sharon saw it (but) at no time did the Israeli Defense Minister say or allude to the fact that Israel had plans to invade Lebanon.'

This was plainly not a denial of Sharon's claim, and it deliberately evaded the issue of how much Weinberger knew in May. Sharon didn't need to discuss the invasion plans directly, because those details had been presented to Weinberger's subordinates several days before Sharon's arrival, by his aide, Arye Ganger (see *New Statesman*, 18 June). Since Sharon avoided direct discussion of the invasion, and Weinberger did not directly 'allude' to it either, Weinberger was able to convey his approval without actually saying so. The liquidation of Yasser Arafat and the PLO was one of the objectives – Weinberger thought that an excellent idea, and Sharon and he both know it. ☐

Appendix H Part 2

THE AUGUSTA CHRONICLE, AUGUSTA HERALD Sunday, July 18, 1982

Israel: America's costly burden

(Editor's note: In this essay, international affairs analyst and author Mark Weber of Washington, D.C., described the high cost of American aid to Israel.)

FOR MORE THAN 30 years, Israel and the United States have had what the leaders of both countries call a "special relationship." Few Americans, though, know just how "special" the relationship really is. Growing American concern over hardening Israeli policies on the occupied West Bank and in Lebanon have focused new attention on that relationship, causing many Americans to question the cost of the strange alliance.

For, in spite of Israel's increasingly independent political course, the Zionist state is all but completely dependent on America for its very existence. Through a variety of channels, the American people provide an economic aid package which adds up to more than $3 billion per year, or about one-half of Israel's entire national income. Governmental and non-governmental support from the United States works out to more than $1,000 a year per person in Israel.

WEST GERMANY pays more than $300 million yearly in reparations to Israel. And Jews in South Africa and Canada furnish some $150 million each year. Otherwise, the entire economic aid burden falls on the American people.

In spite of severe economic problems at home and an unprecedented budget deficit, President Reagan recently asked Congress to approve a record $2.5 billion U.S. aid program to Israel for 1983. The program would include $1.7 billion in military aid, or 28 percent of the U.S. foreign aid total, and $785 million in economic aid, nearly 19 percent of that total. This is an increase of nearly $300 million over the current aid program, and does not include the $3 billion which was given to Israel over a three-year period as part of the Camp David agreement.

SINCE IT WAS SET UP in 1948, the Zionist state has almost invariably received more U.S. foreign aid than any other country. The Congressional Research Service in Washington estimates total U.S. government assistance to Israel between 1948 and 1982 at $24.24 billion.

Almost half of U.S. aid consists of outright grants or instantaneously forgiven loans. The remainder is added to Israel's foreign debt, which is now almost $20 billion. No one seriously expects Israel to ever pay the money back to the American people. And the few formal "repayments" which Israel makes on the debt are actually paid for with new U.S. aid money.

Much of U.S. economic support to Israel is sent through a variety of indirect and sometimes disguised channels. For example, military "sales" constitute two-thirds of the official aid total, but special financing arrangements help keep the giveaway character of the "sales" hidden. America supplies the Zionist state with the most sophisticated military equipment in the world — equipment which Israel could not obtain elsewhere at any price.

FURTHERMORE, the military equipment is sold at special, under-invoiced discount prices. Israel often then resells the equipment to other countries (for hard cash) at substantially higher prices. This happened recently with Iran, for example, a bitter American adversary.

Another form of indirect, hidden aid consists of "sweetheart" contracts to Israel armaments industries to produce military equipment for the U.S. armed forces at prices higher than those charged by American firms. Israel Aircraft Industries, for example, manufactures components for the F-4 and F-15 fighters.

THE U.S. RECENTLY agreed to purchase another $200 million in military equipment from Israel in order to help the Israeli arms industry.

Despite the depressed state of America's housing industry, a special U.S. government program has been providing $25 million yearly to subsidize housing in Israel. As part of the program, private savings and loan associations in the United States are encouraged to provide low-interest loans, which are guaranteed by the U.S. government, for housing in Israel. The Congressional Research Service estimates that a total of $200 million in guaranteed housing loans have already been given to Israel.

MANY HUNDREDS of millions of dollars have been collected over the years for Israel by private Jewish organizations such as the United Jewish Appeal and Hadassah. The funds are considered "charitable contributions" by the U.S. government and thus fully tax-deductable and tax-exempt. That is, American taxpayers indirectly subsidize this form of private economic aid to a foreign country.

Some of the money is even used for projects which violate official U.S. policies, such as military access roads in the recently annexed Golan Heights or settlements in the occupied West Bank. Repeated efforts, including one by the State Department, to end special tax-exempt funding for Israel through the United Jewish Appeal have invariably failed.

STATE OF ISRAEL Bonds are an especially important channel of indirect aid. Since 1951, $5.54 billion worth have been sold in America. Sales in 1981 were the best ever: $434 million. Israel Bond sales are crucial to the economy of the Zionist state. In 1974, for example, overseas bond sales made up a full one-half of Israel's entire internal development budget.

For 10 years, Israel Bonds were the only foreign securities not subject to the Interest Equalization Tax, which was enacted by Congress in 1964, and repealed in 1974.

The Teamsters union bought $26 million worth in 1973 with Teamster pension fund money. Instead of purchasing 20-year Israel Bonds, which yield only 5.5 percent, the union could have bought comparable U.S. bonds with a 6.9 percent yield. The decision by the union management to buy Israeli rather than American bonds cost Teamster members a total of $7.28 million.

AMERICAN political leaders frequently refer to Israel as a "friend" and "ally" of the United States. Actually, the "friendship" and "alliance" is entirely one-sided. In return for the billions given yearly to the Zionist state, America gets broken promises, oil cutoffs from outraged Arab nations, damage to our alliance with Europe and even insults from Israeli leaders.

More and more Americans are asking themselves why they should continue to maintain an economically bankrupt and politically reckless state of less than four million against the U.S. national interest. For the American people, the "special relationship" is not a mutually beneficial alliance — it's a costly liability.

Appendix H Part 1

THE CHRISTIAN SCIENCE MONITOR August 9, 1982

Total US aid to Israel — its dimensions, implications

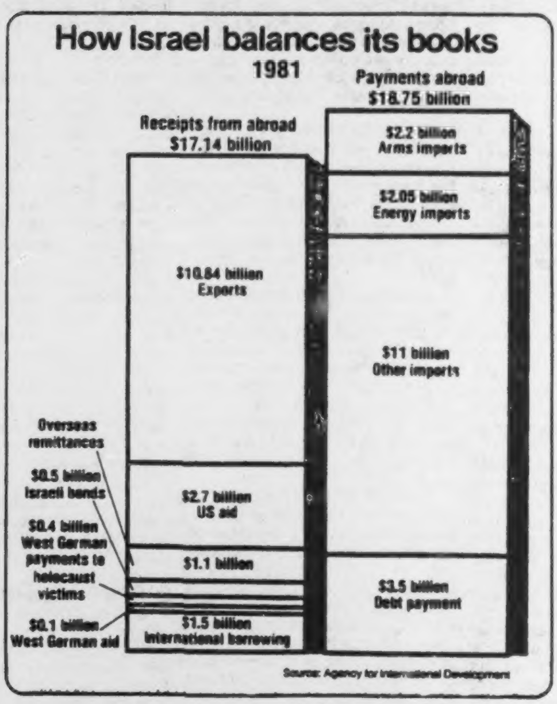
By David R. Francis
Business editor of
The Christian Science Monitor

Boston

The United States has enormous financial leverage on Israel.

However, according to some economic experts, that leverage might not work in the short run to stop a campaign like Israel's push deep into Lebanon – even were the Reagan administration willing to work that lever.

Defense Secretary Caspar W. Weinberger has said the US has "no control" over Israel or its forces.


How Israel balances its books
1981

Source: Agency for International Development

Some economists differ at least in degree. "The problem," said Stanley Fischer, a Massachusetts Institute of Technology economics professor who tracks the Israeli economy, "is that a cutoff of aid would not have much effect in the short run. But in six months the Israel economy would be hurting badly."

Alexander Cukierman, a Tel Aviv University economist visiting Carnegie-Mellon University, Pittsburgh, made a similar comment: "In the short run a cutoff of aid would not change the path of this particular military operation. It would bear a lot of influence in the longer run."

Both economists are, in effect, saying that the threat of a cutoff of about $2.7 billion a year at present in military and economic aid might not stop Prime Minister Begin from a goal such as destruction of the military power of the Palestine Liberation Organization. And that it would take some months for that cutoff to have a serious economic impact on Israel.

"With Begin, it is very hard to know," said Mr. Cukierman. "He's a very stubborn man. It [an aid cutoff] could just backfire in the short run."

US assistance to Israel is equivalent to 12.86 percent of that nation's gross national product (GNP) of $21 billion, that is, its total output of goods and services. That aid amounts to some $675 per head per year for

Israel's 4 million people, a substantial sum considering the nation's GNP per capita of about $5,250.

"It is a lot of money," said an expert with the Agency for International Development (AID). "It is clear we are not a trivial source of foreign exchange for Israel."

From the American side, aid to Israel costs US taxpayers about $80 a year for a family of four.

In addition, Israel gets around $500 million a year from American Jewish organizations. In general, charity money which goes to foreign organizations is not deductible for American tax purposes. The Jewish organizations sending money to Israel are an exception. So the US government loses perhaps another $200 million to $300 million from this quirk in the tax regulations.

Another $900 million of Israeli bonds are sold abroad each year, mostly to members of the American Jewish community. Some of the bonds are redeemable only in Israeli currency.

A report on Israel's economy, issued in March by AID, noted that US military and economic assistance "enables Israel to pay for weaponry, fuel, and other civilian imports . . . without heavy reliance on high-cost commercial borrowing, depletion of its foreign exchange reserves, or economic depression."

Moreover, the American contribution to Israel has been growing, despite the occasional conflict in policy views.

Military sales to Israel have increased considerably since the Camp David accord. It is now approximately $1.8 billion to $1.9 billion each year. Of this, the amount of debt incurred by the sales forgiven at the outset has jumped from some $500 million a year to $550 million in fiscal 1982.

Moreover, the remainder of the military sales is financed over 30 years, with a 10-year grace period in the repayment of principal, but interest charged at the cost of funds to the US Treasury.

The administration has requested economic aid to Israel of $785 billion for fiscal 1983. But in the Senate Foreign Relations Committee, Sen. Alan Cranston (D) of California has an amendment that would boost the aid to $910 billion. This is the amount of principal and interest Israel calculates it must repay in that year.

The aim is to establish, as a rule, that the US would pay back to itself whatever Israel owes each year on its almost $8 billion of debt to the US. In effect, if continued over several decades, that would amount to complete forgiveness of Israel's US debt. (Israel's total foreign debts are above $18 billion.) Any such change, however, would also have to move through the House of Representatives.

If Israel manages its economy reasonably in the future, one AID official reckoned, it might be able to service its debts without serious problems – as long as US aid continued about the same level as in the past.

Aid for Israel's economic development was around two-thirds in grants and one-third in loans until fiscal 1981 when it became totally grants. The old loans were granted on "soft" terms – 40 years to pay back at 2 percent interest for the first 10 years and 3 percent thereafter. Considering inflation, the cost of the loans – if ever repaid – will be minimal.

The military campaign in Lebanon, of course, has added to Israel's financial burdens. Some Israeli publications have put the cost so far at about $1 billion. Israel's government has approved a package of austerity moves, including tax hikes, to help pay the bill. If the war drags on, experts note, the cost will mount up. But so far, the war is regarded as "limited" compared with the 1973 Arab-Israel war.

Appendix G Part 3

THE MIAMI HERALD, JANUARY 22, 1983

Israeli defends harassment as a policy to crush unrest

By DAN GOODGAME
Herald Staff Writer

JERUSALEM — Israel's military chief of staff has confirmed that he advocates putting down Arab unrest in occupied lands through a policy of harassment, detention without trial, economic sanctions, collective punishment and expulsion.

"My suggestions for how to deal with the Arab population were published," Lt. Gen. Rafael Eitan said in an interview that ran Friday in Israel's largest newspaper, the afternoon daily Yedioth Ahronoth. "I stand behind every word that I have said on this issue."

"In periods of disturbances, these are the means to avoid our harming and shooting at the Arab population," Eitan added. "This is the correct way."

Eitan's recommended policy was made public Wednesday, through memoranda submitted as evidence in a court-martial in Jaffa, nd the revelations in his policy have en-[illegible] Israeli liberals.

An Israeli army officer and six enlisted men stand accused of mistreating Arabs in he occupied West Bank of the Jordan River uring stone-throwing demonstrations in Heron last March and April. Defense lawyers rgue that the soldiers and their officer were arrying out official policy.

Eitan distributed his recommendations mong subordinate officers in the wake of st spring's unrest, which followed Israel's uster of several West Bank mayors who had een chosen in Israeli-supervised elections.

According to the memoranda filed at the ourt-martial, Eitan blamed the trouble on Isel's return of the Sinai Peninsula to Egypt d Israel's creation of a "civilian adminisation" that initially promised West Bank abs more opportunities for self-governnt.

Reviewing his recommendations in the wspaper interview, Eitan asked, "What is not OK here? Is it not correct to do this?"

Eitan emphasized that forceful punishments and preventive arrests would result in less danger to Israeli soldiers on the West Bank and less need for those soldiers to defend themselves by shooting Arab demonstrators.

Eitan is criticized by Israeli liberals for declaring that Israel must keep the West Bank forever. However, Eitan, 53, or "Raful" as he is widely known, is idolized by his troops, who admire his professionalism, his outspokenness and gruff concern for their well-being.

In the interview, Eitan defended his record over his four-year tenure by comparing it to the previous period since Israel's capture of the West Bank in 1967.

He said that 44 Arab homes were destroyed by the Israeli army as punishment for Arab suspects during his term of service, compared to 163 such demolitions in the previous period. He said that 853 Arabs were expelled from the occupied territories before he became chief of staff, and four after that date.

> 'In periods of disturbances, these are the means to avoid our harming and shooting at the Arab population.'
>
> **Rafael Eitan**

Knesset opposition member Amnon Rubinstein, however, alleged that more Arabs had been killed during the tenure of Eitan and Defense Minister Ariel Sharon than in the previous period since 1967.

Rubinstein charged that Eitan gave illegal orders to his men and "appeared to have encouraged settler fanatics to open fire on demonstrators contrary to the law."

The Peace Now movement, whose complaints led to the military trial now under way in Jaffa, wrote to Prime Minister Menachem Begin, demanding that he publicly denounce Eitan's policy recommendations.

Leaders of some groups of West Bank settlers, however, advocated that Eitan's suggestions be more strictly enforced in order to maintain security for Jews and to encourage more Arabs to leave.

In dealing with future demonstrations, Eitan advocated in the memoranda that Israel:

- Harass suspected stone-throwers and other troublemakers by repeatedly arresting them for questioning. "Inciters are to be dealt with forcefully and detained at every opportunity." He used the word *tirtur*, Hebrew army slang for "harassment."
- "Construct a detention camp urgently." (One since has been built for teenage detainees near the West Bank city of Nablus.)
- "Use the legal facilities permitting detention for questioning [without trial] for the period stipulated [18 days] . . . release for a day or two and then renewed arrest."
- "Use the means of punishing parents" of suspects and impose other collective punishments on entire "problematic localities."
- "Make extensive use of economic sanctions against problematic localities, such as preventing the purchase of cement or fuel for a period that we will determine."
- "Demand punishment by expulsion" for certain suspects.
- Encourage forceful response to stone-throwers by Jewish settlers on the West Bank: "The residents of the Jewish settlements have to carry arms and open fire when they are attacked. This should be made clear and publicized among the Arab residents."
- "Refrain from inviting [Arab] leaders in order to warn them . . . instead, carry out arrests."

LEVEL OF ISRAELI ECONOMIC ASSISTANCE

Senator D'AMATO. Thank you for your testimony.

I just would like to point out for the record that the Israeli economic assistance has really been absolutely static since our appropriation for fiscal year 1978. In 1978 it was at a $785 million level. The same level as 1979, 1980, 1981, 1982, and 1983. And the proposal for this year is $785 million. Now, I think we should take that into consideration.

And I think that there also is a question when we talk about financial reparations, I think the PLO and the Syrians and possibly others should also be included in any kind of plan for reparations.

Lebanon and the Lebanese people were brutalized by the Syrians and the PLO. While Syria may have initially entered with the express invitation from the central Lebanese Government, there is no doubt that they subsequently became a military occupying force. Their influence covered a good deal of the region and country. They became an occupying force. And where there was initially hope that Syrian presence, by most of the community, Christians, Moslems, et cetera, would help end the strife that maybe in certain areas they would end the strife. But more important, their own stamp in suppressing, et cetera, that country was severely imprinted upon the people.

And I do think it is important that all foreign elements, including the Israelis, be removed from Lebanon. So let Lebanon—and it will have its factions, it will have its battles. There is no doubt that troubles will continue for the Lebanese but they will be internal. The establishment of stability and security in Lebanon will result in secure borders for Israel, thus removing any necessity for its presence or its movement in that area.

I would hope that this in the fullness of time would come about. I do not think we serve any useful purpose in talking about reparations and damages and trying to assess who was more guilty or who was in the right and who was more just. We are talking about the people, the Lebanese people.

I believe that we should see that more aid go to the West Bank area, hopefully, to—and I think this is an area that Israel can and should act in a positive manner. I have urged Prime Minister Begin to make a concerted effort at asking and making settlements available to Palestinians in order to demonstrate to the world community his desire for a resolution of hostilities in the area.

We have got to begin to try to remove the passions and the emotions that pit people against people. Basically there are a handful who, for their own power, because they would have a very difficult time ruling without using whipping boys, et cetera, and appealing to past injustices or practices that may have taken place. They constantly point the daggers of hatred at each other.

You point out what you perceive to be policies that should be addressed, but I do think, as I have mentioned to you in terms of the West Bank area, that there is a humanitarian nature that must be taken into consideration.

And I would also point out that American aid has led to greater stability in that region. Camp David, which was a step forward, came about as a result of the United States using its influence, using its economic leverage, using its pressure for whatever purposes of at least bringing about an accord in that area.

While the process seems at times torturously slow, I hope it continues.

The subcommittee has led the fight, to bring more dollars to those countries in the Middle East who are pursuing peace and for social projects, and those designated to meet the humanitarian problems that exist.

So I thank you for your testimony.

Mr. SADD. I thank you, sir.

NATIONAL DEMOCRATIC POLICY COMMITTEE

STATEMENT OF SUSAN KOKINDA, FOR THE NATIONAL DEMOCRATIC POLICY COMMITTEE

DESCRIPTION OF NDPC

Senator D'AMATO. Next we will hear from Susan Kokinda.

Ms. KOKINDA. Thank you, Mr. Chairman. You have my written statement.

Senator D'AMATO. Yes.

Ms. KOKINDA. I am going to highlight some of the more salient points. We want to thank you for the opportunity to testify. The National Democratic Policy Committee is a multicandidate political action committee and a membership organization affiliated with Lyndon LaRouche. We have about 30,000 members nationwide, and we are running 250 candidates in local elections, one of them, by the way, Mary McCarthy, is running for your old seat on Long Island and raising some of the issues which I am going to be raising today.

COMMITTEE CONCERNS ABOUT DIRECTION OF U.S. FOREIGN POLICY

I would like to actually start out with an illustration which highlights what our concerns are about the direction of U.S. foreign aid in the larger context of U.S. foreign policy. A friend of mine, the editor of a magazine, recently returned from a trip to Egypt, where he toured the very ambitious and exciting high-technology agricultural facilities which the Egyptian Government is building around a number of new cities in the desert.

These facilities are being built, if you will, with American system methods, irrigation, capital goods inputs, the kind of agricultural activity which has made the United States the greatest agricultural producer on the face of the Earth. My friend saw the first potato grown in the Egyptian desert in 2,000 years.

At the same time, however, Egyptian officials told him that they were dismayed over the fact that they could get very little support for these kinds of projects from groups such as the Agency for International Development [AID].

Instead, what AID was interested in giving them was money for labor-intensive pick-and-shovel kinds of projects and population control. AID is very happy to pass out birth control pills, but it does not seem to want to give these countries who are endeavoring to bring themselves into the 20th century with American-system methods the kind of support that they are very, very badly trying to gain from the United States and elsewhere.

BIAS IN U.S. FOREIGN POLICY

And I think this highlights very, very directly the bias that has been in our foreign policy and our foreign aid in the postwar period, a bias which I think has been intensified by the current international economic crisis. And I think that has to be identified in order to be able to understand the direction our foreign policy could now take. I think we are at a branching point, and I think it is defined by the fact that the international financial structure is bankrupt, continued efforts by international financial forces and their allies in national sector governments, such as Secretary of State George Shultz, to maintain the viability of what is a financial fiction, when you have got $1 trillion of unpayable debt out there, and there is no way in the world the Third World is going to be able to pay this back.

However, the attempt to maintain this financial fiction by, in a sense, asset stripping the industrial and the agricultural bases of national economies, not just in the Third World, but in the United States as well, has devastating consequences.

And I think in the end it is unworkable. At a later point we hope to return to the subcommittee and express our opposition to the efforts to keep this chain letter going, if you will, by furthering the appropriation for the IMF. But that is another discussion.

The assertion that the administration is making that an economic recovery in the advanced sector could ameliorate the crisis is a delusion. There will be and there can be no economic recovery within the confines of the existing international economic structure and the straitjacket of unpayable debt that we are facing. We can state that confidently on the basis of the record of an economic model, our LaRouche-Reimann model, which has been correct in predicting the course of the U.S. economy accurately over the past 13 quarters.

As I think the subcommittee is aware, every other economic model has been proven consistently wrong, often to the point of absurdity.

So I think, because of this debt crisis, we are facing a branching point. We were at a similar branching point at the end of World War II. As Eliott Roosevelt reports in his memoirs of his father's activities, there was a rather historic meeting between FDR and I think what became a very apoplectic Winston Churchill, where Roosevelt told Churchill that this was the last war that the United States was going to fight for British colonialism.

Roosevelt pointed to a map of northern Africa to the desert, actually to areas such as Egypt that I opened my comments with, and said that we have had enough of British 18th century methods, with American methods of agriculture—irrigation and capital-intensive investment—FDR said we could transform this desert into a breadbasket.

Well, unfortunately, FDR died shortly after that, and Bretton Woods was erected, and I would submit Bretton Woods is an extension of British 18th century methods.

What our candidates around the country are calling for is, finally, the activation of the American century as FDR described it; that is, the extension of credit to the developing sector for actual productive capital-intensive activity as the United States developed itself. Such an approach would benefit us quite clearly. We could open up our industries and our farms, and we could be exporting to these countries that desperately want to buy American equipment and American methods.

Instead, I think we have a foreign and economic policy which is geared toward furthering a bankrupt international economic structure and crisis managing what is the disastrous effect of that. Efforts to maintain this financial fiction will mean austerity in the developing sector, rapidly converging on genocide. In the industrial sector it means a depression that will make the 1930's look like a recovery.

As the productive base of the world economy is looted to pay off this bankrupt financial structure, people become excess in the balance sheets of the world economy and population control and population wars, which I would submit are polite names for genocide, become increasingly the basis of U.S. foreign policy.

On February 24, Secretary of State George Shultz made what I consider a chilling statement. He said:

> Another part of our program is helping to curb the rampant population growth which underlines much of the Third World's poverty and threatens our planet's resource base. The arithmetic is inexorable. To bring it closer to home, Mexico has 62 million people. If they are able to lower their birth rate to the two-child-per-family level in the first 20 years of the next century, they will have "only" about 250—

"Only," he has that in quotes—

> about 250 million people when their population stops growing.

And yet, out of the other side of his mouth, George Shultz calls for economic austerity and slower economic growth for Mexico and for other countries, under the needs to balance the world's financial sheets. I would submit that George Shultz and others of his thinking are setting up a self-fulfilling prophecy.

And think about what he said: Rampant population growth in the Third World threatens our resource base. I find that frightening. Behind that elegant formulation of malthusian nonsense, which one would have thought was thrown out the window 180 years ago, stands the stark fact that the population control movement in the postwar period was reconstituted from the eugenics movement of the previous decades.

[The statement of Ms. Kokinda follows:]

PREPARED STATEMENT OF SUSAN KOKINDA

NATIONAL DEMOCRATIC POLICY COMMITTEE

Thank you for the opportunity to testify. The National Democratic Policy Committee is a multicandidate political action committee, established in the fall of 1980 by the political forces affiliated with Lyndon H. LaRouche, Jr. With 30,000 members nationwide, the NDPC is currently fielding 250 candidates in local and state-wide elections. Those candidates are running, not on local issues, but for the purpose of bringing the reality of the world situation to their frinds and fellow citizens, because it is a reality which the major media and official Washington would choose to ignore. And it is a reality which defines the bankruptcy and perniciousness of U.S. foreign policy as a whole, and within that, our foreign aid approach.

The international financial structure is bankrupt. Continued efforts by international financial forces, and their allies in national sector governments -- such as Secretary of State George Shultz--to maintain the viability of this financial fiction of unpayable paper by asset-stripping the industrial and the industrial and agricultural bases of national economies has devastating consequences and, in the end, is unworkable. (At a latter time, we hope to appear before the subcommittee again, to present our opposition to the proposals to bailout the International Monetary Fund.) The assertion that an economic recovery in the advanced sector will ameliorate the crisis is a delusion. There will be and can be no economic recovery within the confines of the existing international economic structure and the straightjacket of unpayable debt. We can state that confidently on the basis of the record of an economic model, the LaRouche-Reimann model, which has been correct in predicting the course of the U.S. economy accurately OVER THE PAST THIRTEEN QUARTERS. As the subcommittee knows, every other economic model has been proven consistently wrong -- to the point of absurdity. (See appended chart).

We are at a point of crisis. Over the course of March and April, some $40 billion of U.S. Treasury debt and $90 billion of Third World debt must be marketed or rolled over. This is a time bomb which may go off sooner, rather than later. Therefore, we are at a branching point in the conduct of the affairs of this nation in foreign policy. At a similar branching point reached at the end of the last world war, Franklin D. Roosevelt told an apoplectic Winston Churchill that World War II was the last war which would be fought for British colonialism. Roosevelt pointed to a map of northern Africa, to the desert, and said, "We have had enough of British eighteenth century methods. With American methods of agriculture, irrigation and capital investment we can transform that desert into a breadbasket." FDR died and Bretton Woods was erected as an extension of British eighteenth century methods.

NDPC candidates around the country are campaigning for the belated adoption of the American Century as defined by FDR: The reorganization of the world economy around a gold-backed dollar and the extension of credit to the developing sector for capital-goods purchases from the industrial countries. (Details appended). Such a policy would reopen U.S. basic industries and agriculture while laying the basis of economic growth and development in the Third World and concommitant political stability. Such an approach has been advanced by some governments at the New Delhi summit of the non-aligned nations. Such an approach would define a sane U.S. foreign policy and foreign aid program.

Instead, we have an insane foreign and international economic policy, geared toward furthering a bankrupt international economic structure and crisis-managing its disasterous effects. Efforts to maintain this financial fiction will mean austerity in the developing sector, rapidly converging on genocide. (In the industrial sector, it means a depression which will make the 1930's look like a recovery.) As the productive base of the world economy is looted to pay Swiss, British and New York banks, people become "excess," and population control and population wars -- polite names for genocide -- become increasingly the basis for U.S. foreign policy. A February 24, 1983, speech by Secretary of State George Shultz makes this chillingly clear, "Another part of our program is helping curb the rampant population growth which underlies much of the Third World's poverty and threatens our planet's resource base. The arithmetic is inexorable...To bring it closer to home, Mexico currently has 62 million people. If they are able to lower their birth rate to the two child per family level in the first twenty years of the next century, they will have 'only' about 250 million people when their population stops growing." Out of the other side of his mouth, Shultz calls for economic austerity and slower economic growth for Mexico and other countries.

Rampant population growth in the Third World threatens our resource base.... Behind that elegant formulation of Malthusian claptrap stands the stark fact that the population control movement in the post-war period was reconstituted from the eugenics movement of the previous decades. We find it not coincidental that current Undersecretary of State W. Allen Wallis, part of the ardent population control faction in the administration (which includes Shultz and large sections of the State Department and AID), wrote a "scholarly" paper in 1932 on the statistical distribution of the Nordic race which was read at the infamous 1932 World Eugenics Conference in New York City. That conference honored, among others, leading German racial "hygenicists."

We call on Congress to cut all funding in all agencies of the government for population control efforts. This is not an anti-abortion protest. Agencies such as AID are rigged, to keep Third World nations in a pick-and-shovel mode (which by itself kills off quite a few "excess" people) and passes out birth control pills to the rest of them. Recently, a colleague of mine returned from Egypt, where he toured the ambitious new cities built around capital-intensive agricultural facilities, modeled on American methods and using, often times, American equipment, such as central pivot irrigation systems. My friend saw the first potato grown in the Egyptian desert in 2000 years. Various Egyptian officials had remarked to my friend about the difficulty they had in getting AID to provide financing for these kinds of projects. No wonder. When the Egyptian efforts were described to an AID official recnelty, he responded with shock, "But our approach is just the opposite"... labor intensive development and population control.

These are "British eighteenth (and nineteenth) century methods" taken to their final extreme. Not only must Congress cut off funding for "population control" and "labor-intensive" aid efforts, but it must respond to the calls in the developing sector and by the NDPC for a new international financial structure, based on FDR's formulation of the American Century. It is time that our foreign policy benefitted the American citizen, and the citizens of the countries toward which it is directed, rather than a handful of international financial elites intent on maintaining a Malthusian stranglehold on the world economy.

The LaRouche Gold Program to End the World Depression

NDPC Policy Statement

This document lays out the program for a gold-backed world monetary system developed by economist Lyndon H. LaRouche, Jr., a leading figure in the Democratic Party and the chairman of the advisory board of the National Democratic Policy Committee. This gold proposal presents the unique mechanism for reorganizing the world financial system to the end of expanding world industrial production and trade, and creating the basis for Third World countries to develop economies capable of producing wealth—the only competent solution to the mammoth crisis of unpayable Third World debt now hanging over the world. LaRouche's gold policy is therefore diametrically opposed to the restrictive, credit-strangling gold plan being brought forward by the Bank for International Settlements and its propagandizers in the United States, like Congressman Jack Kemp of New York.

The immediacy of this issue is dictated by the debt crisis and the crisis of the international financial system. The world is months, perhaps days, from the biggest financial collapse since the 14th-century collapse of the Bardi and Peruzzi banking houses of Europe, which bankrupted every European government then in existence and ushered in one of the darkest ages in world history.

At the New Delhi meeting of Non-Aligned nations that began March 1, the governments of the debtor nations have the opportunity to adopt the LaRouche plan and jettison the present unworkable system in favor of a world economy premised on growth; again at the end of March, the governments of the Group of 77 meeting in Buenos Aires have this central issue before them; the heads of state of the industrialized countries meeting in Williamsburg, Virginia at the end of May have the same issue posed to them.

LaRouche's gold proposal works like this.

A Competent Gold Plan

President Ronald Reagan should announce on national television that the United States will take the unilateral step of remonetizing its gold reserves at $500 per ounce, as part of a coordinated effort with other major Western and developing-sector governments to create a new gold-based world monetary system.

At this moment, the world network of banking and financial systems is bankrupt. No amount of austerity or other International Monetary Fund conditionalities can make the roughly $800 billion of outstanding Third World and East bloc foreign debt payable. Although the network of old European aristocratic families, and their financial holdings, the *fondi*, are prepared to implement genocide against Third World nations and others, through the *fondi*-run Bank for International Settlements (BIS) and the International Monetary Fund (IMF), this "solution" cannot stabilize the world monetary system. Nor can various so-called solutions involving vast quota increases for the IMF and its assorted institutions.

Therefore, statesmen and diplomats, elected officials of countries, and responsible citizens would be morally called upon to support President Reagan were he to declare in a television address that the Bretton Woods monetary system put together in 1944 no longer functions, and that the world must return to gold. But there are various pitfalls that must be avoided. There are gold proposals, introduced by BIS chief Fritz Leutwiler and his votaries in the United States, such as Rep. Jack Kemp (R-N.Y.) and Rep. Ron Paul (R-Tex.), which constitute mere "fool's gold." The Leutwiler-Kemp gold proposals, also raised by such spokesmen as Herman Kahn of the Hudson Institute, would sharply reduce world liquidity flows by 30 to 40 percent, and serve as the hard rock against which the productive economies of the world's governments would be dashed.

Any competent gold proposal, as LaRouche has emphasized, must undo the damage done by the demonetization of gold undertaken by the foolish President Richard Nixon in [illegible]ust 1971, under the ill counsel of then-Treasury Secretary John Connally, Assistant Treasury Secretary Paul Volcker, Rep. Henry Reuss, and a host of others. A competent gold plan must emphasize the following elements:

A) The principal problem of economics today is that there [illegible] tremendous need for capital goods to industrialize the Third World, and simultaneously, there are 30 million unemployed workers and 35 to 40 percent idled capacity in the advanced-sector nations. A competent solution to the crisis must match both sides of the equation, finding ways to use the Third World demand for goods to energize the employment of idle resources in the "Northern" or advanced-sector economies.

B) The Third World and East bloc are in no position to order the goods of the advanced sector, because they are weighed down with the crushing burden of a combined $700 billion in debt. The IMF and the Ditchley Group of advanced-sector bankers are now declaring the developing nations "uncreditworthy," except under condition that the Third World governments "agree" to apply IMF-dictated austerity against their peoples on a scale even Adolf Hitler might have blanched at.

C) To redress this problem, gold must be introduced into the monetary system. The gold holdings of all major governments should be remonetized at $500 per ounce, the cost of extracting gold from the most marginally producing gold n[illegible]. This price would be set by treaty agreement among governments, and would be protected against any attempts by private speculators to drive gold's price either higher or lower.

D) Gold would be used for:

1) Settlement of imbalances in current payments due among nations. Those countries that have imported more than they have exported, and thus have a trade *deficit*, will settle this deficit by selling reserve (monetary) gold at $500 per ounce after a required period.

2) Gold will serve as the measure for setting a parity system of fixed exchange rates, establishing the basis for stable long-term contracts, and eliminating the practice widespread among the oligarchies' *fondi* of debasing Third World countries' currencies and destroying their economies through flight capital.

3) Gold will destroy the "Keynesian multiplier" now oper-

ant through the unregulated $1.7 trillion Eurodollar market and through the national credit systems of Western governments, which allows the amount of currency in circulation to be multiplied a disproportionate number of times.

4) All new issues of currency, either in the advanced-sector or developing-sector economies, will be allowed only through Abraham Lincoln-style gold-reserve-denominated currency notes, to be issued strictly through the treasury of the nation in question. In the case of the United States, the Federal Reserve will be federalized and made a subservient branch of the Treasury. The sole purpose of new currency issue will be to fulfill the sovereign purpose of developing countries' national economies, not for speculation, personal aggrandizement, nor to enrich the *fondi*.

5) The Treasury will issue these gold-reserve-denominated currency notes at nominal interest rates to the private banking system. The Treasury will issue these notes for up to 50 percent of the value of a private bank's loan to a productive industry. The Treasury will issue these loans to private banks, provided the banks are lending for technologically progressive investments in any among the following areas: production of tangible wealth in basic industry and agriculture; improvements of basic economic infrastructure; world trade in commodities used for such purposes by importers, or some other specified application established by law. In this way, it is guaranteed that all new credit is solely being issued for productive investment; non-productive investment is excluded.

6) A general world debt reorganization shall be effected to eliminate the debt overhang currently crushing Third World governments. All outstanding debts owed by the developing-sector nations will be frozen at current levels. These governments' treasuries or national banks will issue low-interest, gold-backed 2 to 4 percent interest-bearing bonds. These bonds will be given to private banks and lending governments, as well as multilateral lending institutions in place of the current outstanding debt. The bonds will have a grace period on payment of the debt of 3 to 5 years. The bonds will be underwritten by a new world lending authority to replace the pro-genocide IMF, World Bank, and BIS, which will be disbanded. This new institution, which will be chartered by treaty agreement of Third World and advanced-sector nations, will also have the authority, subject to the approval of these governments, to issue *new* gold-backed issues of credit to the Third World. Only one restriction will be placed on this new credit: the Third World must use it to import high-technology capital goods, agricultural goods, and infrastructural inputs from the advanced sector.

E) If gold is used for the above purposes, we have met the two conditions of rebuilding the world economy. We have a) gotten rid of the debt overhang in the Third World and provided the developing-sector nations with the liquidity needed to import capital goods from the advanced sector, and b) we have lowered interest rates in the advanced sector in a non-inflationary way, which provides the credit needed to finance the capital goods orders from the Third World. By this method, $400 billion to $600 billion worth of export orders will be created in the Third World, and placed on the order books of the advanced-sector nations over the next few years. The developing sector will industrialize, raising the creative capacities of its peoples, and the advanced sector will export its way out of the current downward-spiraling, U.S. Federal Reserve Board-led world depression.

The Kemp-BIS 'Fool's Gold' Plan

While the LaRouche proposal for gold will expand world credit supply, producing an unprecedented economic boom, the purpose of the Leutwiler-Kemp "fool's gold" plan now being advanced to the U.S. government, is to try to discredit the LaRouche plan, and to achieve the opposite effect. The Leutwiler-Kemp plan will produce a contractionary collapse, contracting world credit supplies by 30 to 40 percent and producing collapses in industrial production and world trade of equal amounts. The purpose of the Leutwiler-Kemp gold plan is to maintain the *fondi*'s control of the world monetary system, by shrinking that system, and reducing population and industrial output. In this way, LaRouche has noted, the Leutwiler-Kemp plan is no different from the current genocidal policies of the IMF and BIS, but only an intensification of those policies.

The gold plan of BIS head Fritz Leutwiler was first formally announced by then-head of the BIS Jelle Zijlstra in October 1981 at a press conference during the IMF's semi-annual meeting. Leutwiler has repeated the outlines of the BIS gold plan, first enunciated by Zijlstra, several times since then. The essence of the Leutwiler-BIS plan is:

A) The amount of credit in the world is not determined by the liquidity needs of industry and agriculture, but rather by linking the amount of credit to some multiple of gold (i.e., were gold to be valued at $32 per ounce, for purposes of argument, private banks could lend only $32 or $64 or some such multiple of loans for each ounce of gold held in reserve).

B) The BIS and IMF would control, along with London, Switzerland, the Union of South Africa, and the Soviet Union, the world's leading gold suppliers, the amount and purposes of gold use. This would keep control of new sources of liquidity in the hands of the *fondi* and its agent institutions.

C) Gold's price might be allowed to fluctuate until it reached a "free market rate," i.e., a price set by the BIS, IMF, and principal world gold owners. Instead of gold, tin, copper, or other commodities might be used. The amount of credit might therefore, in this latter variant, be limited to the amount of rise of a basket of commodities which would include gold and other commodities.

D) The Third World would have no say in the new arrangements. Nor for that matter would the United States, West Germany, Japan, Italy, France, and other advanced-sector nations, except for meaningless gestures of "consultation" by the BIS and IMF.

E) This gold arrangement would be consistent with and encourage the development of either the BIS or IMF as a "one world central bank."

The Leutwiler-Zijlstra-BIS gold plan was filtered into the United States by a Leutwiler-sycophant, Columbia University Professor Robert Mundell. It is Mundell, the actual "founder" of supply-side economics, who passed this plan to his protégé, former football player Rep. Jack Kemp (R-N.Y.). Kemp has now interested a group of congressmen and Leutwiler allies in the Reagan administration, including Assistant Secretary for Economic Affairs Allan Wallis, to pressure President Reagan to adopt the Leutwiler plan as part of a program to avoid a world banking collapse. Kemp has mislabeled this anti-industrial, anti-capitalist, anti-growth proposal as "conservative," to gain the President's acceptance.

Last Chance

The world receives few chances to atone for its past mistakes, Lyndon LaRouche recently remarked. The Bretton Woods system established in New Hampshire in 1944 was never a workable monetary system. Now necessity has forced a second chance on the world's governments, their leaders and their populations, to junk that unworkable system. "World leaders, meeting at the Non-Aligned summit in New Delhi, India March 7, and at the heads of state meeting of the seven leading industrial countries in Williamsburg, Va. May 25, can now adopt my plan, end the misery of the current monetary system, and usher in a period of unprecedented economic growth," LaRouche asserted. "Or else they can face the consequences of the worst world financial crash since the 14th century."

Per Annum Rate of Change of Industrial Production

	1980		1981		1982	
Date of Forecasts	1st Half 3 80	2nd Half 7 80	1st Half 1 81	2nd Half 7 81	1st Half 1 82	2nd Half 7 82
EIR Forecasts	**− 7.5**	**+ 1.1**	**+1.1**	**− 5.2**	**−6.0**	**−6.9**
Index of Actual Industrial Production	**−14.0**	**+13.2**	**+2.6**	**−12.4**	**−6.6**	**−5.4**
Data Resources Inc	− 1.2	−12.1	+2.0	0.1	−7.7	−0.3
Wharton Economic Forecast	+ 0.5	−11.4	+9.8	+ 1.8	−9.1	+1.6
Conference Board	+ 2.0	− 9.6	+0.9	− 1.8	−5.1	+1.4
Commerce Department	− 1.6	− 8.6	−6.0	+ 1.4	−4.0	−4.2
Morgan Guaranty	− 1.4	−10.7	+5.9	+ 2.6	−7.5	2.7
Evans Econometrics	+ 0.3	−11.2	+4.6	+ 4.1	−0.8	+0.9

DEVELOPING COUNTRIES AS PRODUCERS

Senator D'AMATO. I wish I understood all those big words. [Laughter.]

Ms. KOKINDA. Well, I think it comes down to a very simple conception. Either you view people as consumers, which is what I think the population-control movement views, and views people as excess baggage; or you view them as producers, people whose creative potential provides the basis for surmounting whatever resource crisis that we are faced with.

BIRTH CONTROL PROGRAM IN DEVELOPING COUNTRIES

Senator D'AMATO. Well, let me ask you at this point, because you have really zeroed in on population control as some kind of terrible, terrible blight and stain on humanity, would you suggest, for example, that giving the people of the developing world tools and the implements by which to educate people as to how they can have some form of birth control, that that is population control, that is evil, or that it is against mankind?

If you are to go into areas, for example, of India, Pakistan, Bangladesh, where poverty is in great abundance, where the literacy rate is such that there is little, if any, communication, that disseminating of birth control—and I am talking about birth control information—that that is not in the best interests of those people? Is that what you are suggesting?

Ms. KOKINDA. What I am suggesting is that the population control movement at the top has a fundamental malthusian bias.

Senator D'AMATO. Do not give me this word, malthusian bias.

Ms. KOKINDA. Malthus said in 1820 or 1810 that there were too many people in the world.

Senator D'AMATO. You have to excuse me. Many people may understand these things, but I am not really a country boy, but I have problems with this.

Ms. KOKINDA. It is zero growth.

Senator D'AMATO. Pardon?

Ms. KOKINDA. It is people who say the world's resources cannot support the world's population.

Senator D'AMATO. OK.

Ms. KOKINDA. And our feeling is the history of the human race indicates that is patently false. I would point to such statements as——

Senator D'AMATO. Please come back to my question, though. I am talking about the dissemination of birth control information to Third World nations with soaring populations. Look to a nation to the south of us, Mexico, for example. You do not have to go to Bangladesh. Is the dissemination of birth control information to these people an act against mankind?

Ms. KOKINDA. I view it as absolutely unnecessary and within the context of a very evil intention by the people who created the population control——

Senator D'AMATO. The intention is another area. That is a different subject. But just because you spend a great portion of your time directing your attention and that of the committee to planned families, so to speak, curtailing the great birth rates.

Ms. KOKINDA. I would go back to what I began with, which is, if you look at what these countries are asking for, countries such as Egypt, countries such as Colombia, and Mexico——

Senator D'AMATO. I have no question——

Ms. KOKINDA. They do not feel they have——

Senator D'AMATO [continuing]. With your statements in regard to those countries who say, teach us how to plant, teach us how to grow, give us the ability to do for ourselves, and for our own economies as opposed to the brick and mortar.

And, as a matter of fact, we will put that question, and I ask the counsel if you would not direct the first part of the statement, which said there are those in Egypt who objected to the brick-and-mortar projects as opposed to the projects that would give them the capacity to grow for themselves—food, et cetera. We will ask Mr. McPherson for a reply to that. And I think that is a very legitimate inquiry because obviously we just do not want to pour dollars into brick and mortar. We want to give people the ability to develop their own economic capacity, et cetera, within their own country.

Ms. KOKINDA. I think the bottom line, in conclusion, is I do not think we have a population problem in the world. I think we have a——

Senator D'AMATO. In Bangladesh?

Ms. KOKINDA. No; we do not.

Senator D'AMATO. In India?

Ms. KOKINDA. What we have is——

Senator D'AMATO. In China?

Ms. KOKINDA. What we have is a problem of restricted economic development which has been imposed on those countries and, I would submit, imposed by many people who were very active in the population control——

Senator D'AMATO. Understand, I am not a great advocate for planned parenthood. All right? Because I think there have been certain instances they may go above and beyond. But I certainly do not think that the dissemination, even here within this country, of birth control information so that people can act, our youngsters can act intelligently, et cetera, is something that is evil.

I certainly do not believe that, in these foreign countries, to give to foreign governments and to their people the capabilities, the capacities, some aid and disseminating information where they have a population explosion, where they do have a problem feeding their people, giving them the very basics, that to say that this is some sinister plot and to say that this works in their worst interests, I cannot agree to that, most respectfully.

In terms of the other part of your position that you have directed to this committee in terms of saying, Senator, we have concern that we are not giving them the economic tools to develop for themselves, that is a very real concern of this Senator and I think of the entire committee.

And Senator Inouye, he wants to see to it that we do not just give dollars for those projects that we deem to be in the best interests, but dollars that will give to people the ability to do for themselves and their country in the long run. And so we share that common concern.

But maybe at another time we can discuss your theory with more time to spare. I find it intriguing.

Thank you very much.

Ms. KOKINDA. Thank you, Senator.

ASSOCIATION OF STATE UNIVERSITIES AND LAND-GRANT COLLEGES

STATEMENT OF EDWIN B. OYER, DIRECTOR, INTERNATIONAL AGRICULTURE PROGRAM, COLLEGE OF AGRICULTURE AND LIFE SCIENCES, CORNELL UNIVERSITY

THIRD WORLD DEVELOPMENT PROGRAMS

Senator D'AMATO. Our next witness will be Dr. Edwin Oyer, director of the international agriculture program at Cornell University. Dr. Oyer has a distinguished career in agricultural research. And I am delighted to have you here.

As you know, Cornell is a university which is leading the Nation, and indeed the world, in the areas of research methods in agriculture and rural development. It is a great institution of learning. A credit to our State of New York. We are certainly enriched by its presence.

And, Doctor, we certainly are enriched by your appearance here before the subcommittee.

Dr. OYER. Thank you very much, Mr. Chairman. I appear before you today on behalf of the Association of the State Universities and

Land-Grant Colleges. The title of my presentation, which you have in written form, is "Increasing the Capacity for Development in the Third World."

I would like to illustrate what I mean by this with an illustration of comparing the development of postwar Japan and Germany, which had a capacity for development, and those Third World countries which are primarily agrarian societies in Africa and Asia that are still making their attempts to develop their own economies and their own political stability and social stability to allow for the development process to continue.

AGRICULTURE IN THIRD WORLD DEVELOPMENT PROGRAMS

I would plead for your consideration, you and your committee, for considering agriculture as the central sector of these economies that are in the developing Third World and consider them as the engine for development, if you will, because it is from this base that our own country grew to reach its prominence that it enjoys today, and I think that they will follow exactly the same kinds of procedures that we followed.

It can be called reconstruction. It can be called development. I think there is very little difference. I am talking about the capacity for a country to do this. And I would talk toward the need and the continuing need for the attention to the building of both human and institutional capacities to reach national goals in these Third World countries.

I would like to put forth the U.S. example in our own agricultural development, which I am sure you well know. And in these Halls of Congress the Morrill Act was passed in 1862. It was another 25 years until the Hatch Act was passed to provide a research budget for adding to the teaching responsibilities of these land-grant institutions. And it was another 27 years until the Extension Act was enacted by the Congress in the form of the Smith-Lever Act.

Senator D'AMATO. Dr. Oyer, I am going to apologize to you because, No. 1, I myself find this a loss because I would love to hear the rest of your presentation because listening to your initial presentation, those things that you have indicated I think are of great, great importance. I do not think we have done enough of it.

I have been down in Panama, we have a very modest, modest program there in aid in agriculture, in diversification to get people away from growing the one crop where if the world market goes down they are all in trouble in terms of correcting their imbalance of payments.

And I offer you and those present an apology. I must return to the Senate floor immediately. We will have a brief recess until Senator Kasten arrives. This committee stands recessed.

Dr. OYER. Thank you very much.

[Brief recess.]

RESUMPTION OF DR. OYER STATEMENT

Senator KASTEN [presiding]. The subcommittee will come to order.

Is Dr. Oyer here?

Dr. **Oyer**. Yes.

Senator **Kasten**. We are having a complicated day on the floor of the Senate. I hope everyone understands that.

I understand, Dr. Oyer, that you were partway into your discussion.

Dr. **Oyer**. I was part way in, and I will not repeat. My context is to plead for technical assistance in agriculture for increasing capacity for development in the Third World. I was just defining that this capacity that I plead for is being provided, I think through our U.S. university system. And of course, we are in association with U.S. AID through title XII of the Foreign Assistance Act, and we ask your support for that.

I was commenting on using agriculture as the engine of development and relating to the committee, sir, the parallel between our own country in which we had 52 years from the time the Morrill Act was passed until the Smith-Lever Act to get our agriculture act in order, if you will.

We are expecting developing countries now without the capacity that we had at that time to do this in less time than that. So we had a luxury of time in the United States, and I think that we deserve to continue to support this kind of capacity development in the Third World countries.

It will indeed be the long-term solution, I think, to a lot of the development kinds of problems that exist there. We have, in the context of assistance, our luxury production through our agricultural infrastructure has allowed us to provide a lot of food and humanitarian aid, and certainly no one would argue against that.

What we would argue for is that this be kept in a reasonable balance. And I would illustrate this by the old adage that if you give a man a fish, you feed him for a day; if you teach him how to fish, you can feed him for life. And that is the essence of what we are asking you to support here through our institutional arrangements that have been developed to this end.

DIRECTED NATIONAL DEVELOPMENT

Now, I think I happen to be convinced at this point that directed national development is probably one of the most compelling activities of our time, and we have, I think, a very real opportunity as well as the responsibility to respond to this.

It brings up some interesting questions of values, techniques, and qualities of benefits, equities of benefits that distribute from development. And I would list these values as, number one, being just the sustenance of life, the life sustenance or the ability to maintain oneself. The self-esteem that is required for any individual to have pride in what he is doing and the freedom from poverty which is restricting and shackling a lot of the Third World countries.

And turning now to these three values, I think in terms of capacity as developing the ability and the energy for change. In other words, if we can continue to provide this sort of assistance, these countries will indeed develop.

Equity, we talk about the distribution of the benefits of development. And that, of course, is somewhat of a moral judgment and is at governmental behest in many cases.

Third, we talk about the empowerment of the people to enable them to then follow democratic and a democratic decisionmaking process, given these other two preceding values to govern themselves and to indeed direct their own futures and after they have been helped in getting this process started.

Finally, I think this development issue that faces us in the world today needs to accept or have acceptance by all of us, developed and developing nations alike, the concept of the interdependence of people and nations in the world. And I think recent events have demonstrated this interdependence very, very markedly. And this interdependence I think once accepted and realized will then lead to continued future development that will allow a sustainable future for these countries.

UNIVERSITY ACTIVITIES

In closing, I would just like to comment on a few of the things that we are doing at the university that I represent in this area. We are fortunate to have in our college about 250 foreign students. We take them as a human resource to us. In our university we have nearly 1,000. We are trying to help give them a better window on the development institutions that we have formed in the United States so that they can take what is good from them and try to transfer them to their own countries.

We are proceeding on a very interesting program facilitating with the role of women in development. This is something that has long needed additional assistance. And we are doing this through a program that we describe as household food production systems. We are pleading for a balance between, we are trying to strike a balance in our programs between assistance that will increase productivity and also other kinds of assistance that will help to promote the equity in the distribution of the benefits from international development from national development in the Third World countries.

And again, I would say, as final words, we would just plead for your committee to continue your assistance for the request for the U.S. Agency for International Development. And we in our role at the universities take our responsibilities very serious as public servants in trying to help alleviate the poverty and the hunger that does exist in the world.

And we thank you very much for your consideration.

[The prepared statement of Dr. Oyer follows:]

PREPARED STATEMENT OF EDWIN B. OYER, PH.D.

Director, International Agriculture Program
College of Agriculture and Life Sciences
Cornell University

on behalf of

THE NATIONAL ASSOCIATION OF STATE UNIVERSITIES AND LAND-GRANT COLLEGES

Mr. Chairman, I appear before you today on behalf of the Association of State Universities and Land Grant Colleges. As you and the members of this distinguished committee know, the member institutions of this Association have had a long history of experience in serving U.S. Government policy initiatives in foreign countries, assisting them in their development efforts - especially after World War II. History has well demonstrated that those countries which had the capacity to direct U.S. assistance resources to their national development goals matured rapidly in the development process. Japan and West Germany stand as evidence of the validity of this statement. However, the liberated or decolonized countries of Africa and Asia which did not possess this capacity for development are still struggling to produce or secure enough food to maintain the social stability required for their governments to build this capacity.

Being a representative of the College of Agriculture and Life Sciences of the land grant institution of New York, the Empire State, I would like to focus my remarks on the role of agriculture in the third world countries as the engine for national development. As you are well aware, the more than 130 countries of the world classed as developing countries are agrarian societies dependent on their natural resources for the production of adequate food and fiber to sustain their growing populations at only slightly above subsistence levels.

Converting these natural resources into food and fiber requires not only the training of human resources to accomplish the task, but also the development of institutions in which they will interact to attain the required goals.

I would remind the members of this distinguished committee that in these United States of America, we enjoyed the luxury of time in which to develop the organizational structure of our land grant institutions to serve our agricultural sector. It is fitting to remember that earlier members of this legislative body passed the Morrill Act in 1862 providing for the teaching of agriculture and the mechanic arts to the masses. This was followed 25 years later by the Hatch Act of 1887 which provided federal funding for the establishment of experiment stations where research could be conducted to generate both new knowledge and new technologies to improve the agriculture of the nation. it was in 1914, 27 years later that the Smith-Lever Act was passed establishing the cooperative extension service to disseminate the results of research to our rural society. The results of this institutional capacity for the development of our agricultural sector are enjoyed three times each day by millions of American consumers who secure their food needs at the lowest percent of income expenditure in the world.

The developing countries of the world today do not have the luxury of time for this development phase that we enjoyed. The pressure of population on resources is great and the capacity for directed development is low. Certainly our luxury production affords an excellent opportunity for humanitarian assistance such as food aid. But the comparison between humanitarian and development assistance is stated simply by the old adage: "Give a man a fish and you feed him for a day, but teach him to catch fish and you will feed him for life." The development of institutional capacity to provide the increased human capacity necessary to direct the development process through an agricultural revolution into labor absorbing, income producing industries is a long term process and requires both patience and understanding. The institution building process is alive and well in our foreign technical assistance program directed through USAID. Member institutions of the Association I am speaking for today are joining in this effort under the auspice of the Title XII legislation passed by the Congress less than a decade ago. This authorization and support has provided the fourth dimension to the mandate of our land grant institutions - international agriculture.

Directed national development is one of the most compelling concepts of our time. It provokes painful questions about values, techniques and choices. At least three core values are central to the process for both individuals and their nations as a whole. These are: 1) life sustenance or the ability to provide basic necessities, 2) self esteem or the ability to be a person or a sovereign nation and 3) freedom from servitude or the ability to choose. Indeed, development as an increase in the capacity to influence the future has certain implications. First it means building the capacity to expand the ability and energy to make changes. Second it involves equity in the distribution of the benefits of development to prevent the erosion of that capacity for further development. Third it implies empowerment of the population through education and understanding so each individual can optimize the utilization of these new fruits of development in a democratic way. Finally, the true interdependence of the peoples and nations of the world today must be taken seriously to insure that the future is sustainable. Events in one part of the world do influence the peoples and nations around the globe as has been demonstrated repeatedly in recent years.

Finally, I would like to tell you about some of the activities on the Cornell campus which, in my opinion, are positive factors in generating the capacity for development and the understanding to make advances sustainable. We are fortunate in having over 250 foreign graduate students in our College and over 1,000 in the entire University - a human resource not uncommon in numerous institutions of the Association. Many of these foreign students in our American universities will become national leaders on returning to their developing countries. We are attempting through our curriculum to give them a better window to the understanding of our own institutions of development which have served our country so well. Most importantly we are attempting to transfer knowledge which will help them to assist their countrymen to attain the life sustenance, self esteem and freedom from the servitude of poverty mentioned above.

While improvement in curriculum is a continuing process at all good universities, a more recent emphasis at ours at least is attention to the growing concern for the role of women in development and in the agricultural sector as a whole. Our specific efforts are focused on the analysis of household food production systems and we are encouraged by the wide interest and attention this activity is attracting. Members of our faculty are involved in institution building and research for development activities abroad through USAID funded projects. We are attempting to maintain a favorable balance between efforts which contribute directly to increased productivity from existing natural resources and techniques and methodologies which will assist in providing an equitable distribution of the benefits of development to the rural populations of developing countries.

In conclusion, I wish to assure you that as public servants, we in the member institutions of the Association take our opportunities and responsibilities to facilitate international agricultural and rural development seriously. Some leaders in the field suggest that we are indeed at a crossroads in our development efforts. We believe that in the long run our continued efforts in building the human and institutional capacity to facilitate development and improve the linkages among our national and international institutions established to attain these ends are bearing fruit and will continue to do so with increasing visibility. We do not wish to attain these objectives at the exclusion of humanitarian aid but in a balanced offering of humanitarian and development aid which will have a positive rather than counter productive influence on our national capacity to influence international agricultural and rural development efforts around the world.

Thank you.

PROGRAMS IN UNIVERSITIES

Senator **Kasten**. I thank you. I am aware of the program at Cornell University, and I think along with it I am proud also of the program at the University of Wisconsin.

Dr. **Oyer**. Certainly.

Senator **Kasten**. There are a number of universities that have the kinds of programs that you talk about. As you know, this subcommittee has been supportive of these programs, and we believe in them. We are pleased to have you testify here today on behalf of them. I think it is fair to say that the subcommittee will probably continue to be supportive of these programs. Thank you very much for coming here today and for your testimony.

Dr. **Oyer**. Thank you, Mr. Chairman.

POPULATION INSTITUTE/POPULATION CONTROL COUNCIL

STATEMENT OF WERNER FORNOS, PRESIDENT, THE POPULATION INSTITUTE/POPULATION CONTROL COUNCIL

INTERNATIONAL POPULATION ASSISTANCE

Senator **KASTEN**. Next is Mr. Werner Fornos, the president of the Population Institute.

Mr. **FORNOS**. Thank you very much, Mr. Chairman. It is a privilege to be before the committee again, our third year, midterm of your 6-year term. And it is always a pleasure to work with your committee staff, which ranks certainly as one of the best on the Hill.

I just returned from Stevens Point, Marshfield, Boyiston, and so I want you to know that the message I am going to share with the committee today has deep roots in Wisconsin. As a matter of fact, on our recent swing through Stevens Point, where we had the privilege of meeting with three former Governors of the State, who are now members of our advisory committee, all of them hanging out in that insurance company in Stevens Point, occupying different chairs, that they too support this program.

And we have now developed the Population Institute into the largest grassroots citizens network singularly dealing with population efforts. And we are really here to tell you that the program in international population assistance is perhaps the most successful and cost-effective of our foreign aid program.

And if one challenges that question, we need only look at the fact that early in 1960 demographers around the world predicted that we were going to have a world of 7.1 billion people by the year 2000. And after 15 years of very strong and vigorous family planning assistance programs on a voluntary basis, these demographers are now saying that the growth of the world will probably be somewhere around 6.1 billion in the year 2000.

So we are seeing for the first time a downturn in the growth rates in the world. But lest we take too much hope out of that, we must realize that the growth of the world is at 80 million people still.

ADMINISTRATION SUPPORT OF PROGRAM

We have gotten some significant support from within the administration. Leaders of the administration have time and again voiced their recognition of the world global population problem, and the President has pledged himself to place greater international efforts to deal with the problem of global population growth both in the Ottawa economic summit and then later the President again pledged himself in Versailles that he would give special encouragement to programs that would address the implications of population growth.

The most recent expression, of course, we already heard this morning when Secretary Shultz appeared before the Foreign Affairs Committee. He made perhaps the strongest statement of any recent Secretary when he likened rampant population growth saying that it underlies the world's poverty and poses a major long-term threat to political stability and our planet's resource base.

Certainly, we welcome his statement because it indicates that the high-level commitment of the Reagan administration is there.

One has to wonder, however, in looking at those kind of words and then the budget that has been presented to the Foreign Operations Subcommittee for appropriation for fiscal year 1984, how much real substance is behind the words when we realize the kind of problems we are facing.

A 0.6-percent increase in population assistance recommendation that we move from $211 million to $212.2 million in population assistance is really just a token increase when one considers the fact that there are in the world today, according to the world fertility survey, some 400 million women who either did not want their last pregnancy nor want any other pregnancies and have no visible means for the information or the services which are so desperately needed by them.

We find at the moment, for instance, that demographers have told us that if within this decade, if we were able to respond to the requests of these women just by doubling the numbers of users of safe voluntary family planning methods from 100 million to 200 million, that we would be able to stabilize world population at 8 billion people rather than the current predicted 12.2 billion that is being predicted in some quarters.

With President Reagan in mind and his call both at Ottawa and Versailles for greater assistance and greater commitments, we wonder whether this committee cannot see it itself to be able to adjust the very high level of increase in military aid that is being requested, a 20-percent increase in military aid as compared to the 0.6-perceft increase in population assistance.

In 1980 the House Foreign Affairs Committee went ahead and authorized $273 million in this field. Obviously, it did not fly that year. But it is time again to use that as a beginning point and try to aim at least 2 years later in a program that has been hamstrung by lack of availability of funds to move foreign international population assistance to $275 million.

FUNDING REDUCTIONS FOR UNFPA

One thing I find particularly disturbing in the administration's population assistance proposal for fiscal year 1984 is the recommendation to slash funding to the United Nations Fund for Population Activities [UNFPA]. We find ourselves at this particular point taking increases out of central population programs which are principally carried by private voluntary organizations. These organizations are able to move swiftly. They are able to respond to opportunities, calls for help in countries which long-term Government programs, tedious, laboriously carried out, are not able to do.

As a matter of fact, I think if we look at the current AID budget and we find that there is $508 million roughly in bilateral programs that are not expended, yet the cuts do not come in the bilateral program but they come under central office programs. To cut UNFPA at a time when we are getting ready to have a major world population conference in Mexico is to me a signal to the world that the United States is abandoning its leadership in this area. And I do not think that that is correct.

Furthermore, UNFPA finds itself in the very difficult situation in answering more requests from governments, governments around the world, for family planning aid than ever before. As a matter of fact, AID in its policy statement released just at the end of last year acknowledges the fact that the demand for family planning worldwide is at an all-time high.

I cannot help but wonder what is behind the rather significant cut with UNFPA, especially when it comes on the heels of a very thorough evaluation conducted by the State Department and AID of the operations of UNFPA. One would almost automatically say, is it not interesting that a United Nations agency would allow itself to be audited by the U.S. Government. Yes, it is curious because it happens, to my knowledge, to be probably the only U.N. agency that has continuously allowed itself to be reviewed for programmatic substance and content by the United States.

Obviously, since we are the major donor to the UNFPA, this is a rightful course for them to take. But I would just like to share with you some quotes from that evaluation. The AID and U.S. State Department joint statement says that a continuing UNFPA role is "important to the achievement of U.S. Government foreign policy objectives."

It goes on to say that UNFPA assistance "serves more than 100 countries and provides a variety of assistance needs that are not always met by AID bilateral population assistance programs and which often are vital to the successful implementation of AID activities."

It also says that the United States should continue financial support of UNFPA at a level "sufficient to reflect the demonstrated importance of UNFPA activity to the achievement of overall U.S. foreign assistance policy and development assistance interests."

And then finally, one quote that I think is very relevant to today's discussions, that "any diminution in U.S. support"—for UNFPA—"might be interpreted by other donors and by less developed countries as a negative signal with regard to the Fund and international population assistance."

I think on the basis of this highly supportive evaluation, we ought to maintain in the foreign assistance authorization and appropriation process the mandate that was initiated by the U.S. Senate last year that 16 percent of international population assistance should be earmarked for this very worthwhile international organization.

Their assistance alone to Mexico, with whom we have no bilateral agreements between the United States and Mexico, amounting to $14,500,000, helps us in a field which certainly has far-ranging implications not only for U.S. immigration policy but for the safe and harmonious co-relationship between Mexico and the United States.

I think the demands that have been placed by the Third World women, which have very clearly given the message to the donor community they would like help, is best exemplified when we realize that 80 percent of the world's people today live on their governments that have made a decision that their population growth is detrimental to their economic well-being, and that in order for them to achieve any increased quality of life, they are going to have to come to grips with runaway population growth.

We can solve this problem. We may not be able to solve many other problems, but for a minor amount of investment we can guarantee that the next generation of people in this world can have a better quality of life. Thank you, Mr. Chairman.

[The prepared statement of Mr. Fornos follows:]

PREPARED STATEMENT OF WERNER FORNOS

PRESIDENT

THE POPULATION INSTITUTE/POPULATION ACTION COUNCIL

Mr. Chairman, I appreciate the opportunity to provide this written statement to the Senate Appropriations Foreign Operations Subcommittee. I am Werner Fornos, President of the Population Institute, the largest citizens' network seeking to bring world population into balance with global resources. The Population Institute is a private, nonprofit organization that does not seek or receive funding from the United States Agency for International Development or the United States Government.

Leaders in the Reagan Admnistration have time and again voiced their recognition of the world overpopulation problem. The President himself pledged to place "greater emphasis on international efforts" to deal with the problem of global population growth in the Ottawa Economic Summit communique of July, 1981. A year later, President Reagan pledged, in the Versailles Economic Summit communique, that he would give "special encouragement" to programs that would "address the implications of population growth."

The most recent expression of concern emanating from the Administration came only a few days ago. Speaking before the House of Representatives Foreign Affairs Committee, Secretary George P. Shultz warned that "rampant population growth underlies the third world's poverty and poses a major long-term threat to political stability and our planet's resource base."

From these statements, one can only conclude that the United States not only recognizes that there is a world overpopulation problem, but that it intends to exert strong efforts toward tackling that problem. But somehow between those ringing declarations of concern and commitment at the highest level and the Administration's input into the foreign assistance budget process, something was lost. I am certain of this or else the Administration would have recommended considerably more funding than the mere 0.6 per cent increase it is requesting Congress to approve for global population assistance in fiscal year 1984.

Demographers tell us that by doubling the number of contraceptive users in the developing world --- from 100 million to 200 million --- by the end of this decade, global population can be stabilized at 8 billion rather than at 12.2 billion. Meanwhile, requests for population assistance are exceeding available funds from all sources by some $200 million. But an Administration that keeps telling us that it is concerned and committed asks to increase the international population budget by only $1.2 million --- from $211 million to $212.2 million.

Is this what President Reagan had in mind when he signed the Ottawa and Versailles Summit communiques calling for "special emphasis" and "greater commitment" to the world population growth problem? Is this the kind of foreign assistance priority the Administration places on a problem the Secretary of State only last month called the root of poverty in the third world and a major long-term threat to political stability and our planet's resource base?

Another interesting aspect of the Administration's population assistance proposal for fiscal year 1984 is the recommendation to slash funding for the United Nations Fund for Population Activities. Last year Congress mandated that 16 per cent of U.S. foreign population assistance, or $38 million, whichever is lower, should be appropriated to UNFPA. This year the Administration recommends an $8.8 million reduction in funding for UNFPA --- a drop from $33.7 million to $25 million.

This recommendation is fascinating because only last year the Agency for International Development and the U.S. Department of State jointly prepared an evaluation report in which it found:

---that a continuing UNFPA role is "important to the achievement of U.S. government foreign policy objectives."

---that UNFPA assistance "serves more than 100 countries and provides a variety of assistance needs that are not always met by AID bilateral population assistance programs and which often are vital to the successful implementation of AID activities."

---that the U.S. should continue financial support of UNFPA at a level "sufficient to reflect the demonstrated importance of UNFPA activity to the achievement of overall U.S. foreign assistance policy and development assistance interests."

---and that "any diminution in U.S. government support (for UNFPA) might be interpreted by other donors and by less developed countries as a negative signal with regard to the Fund and international population assistance."

On the basis of that highly supportive evaluation, I find it incomprehensible that the Administration is, a year later, seeking to slash UNFPA funds by $8.8 million. Has something happened between the evaluation and the Administration's budget request for fiscal year 1984? Has there been another evaluation of UNFPA? If not, what is the justification for taking the meat-axe to the UNFPA appropriation? If the evaluation is accurate, and no one in this Administration has stepped forward to tell us that it is not, the 16 per cent earmarking language should be restored.

Given the severity of the world population problem and the pledges of commitment by this Administration, a doubling of the current $211 million U.S. overseas population appropriation would not be an unreasonable recommendation for fiscal year 1984. Even a doubling would fall far short of approaching the $500 million budget the Council on Environmental Quality back in January 1981 said was an appropriate level for the AID population assistance program.

Two years ago the House Foreign Affairs Committee approved

$272 million for population assistance. The current appropriation represents, in actual dollars, only 66 per cent of the funding provided for population 10 years ago. In light of these facts, a responsible Congress should approve nothing less than $275 million for population spending in fiscal year 1984.

Money alone is not going to solve the problem of world overpopulation. But we must ask ourselves if the achievement of stabilizing global population at 8 billion rather than 12.2 billion is a worthwhile objective? We must ask ourselves what difference will four billion people mean to this planet in terms of environmental degradation, depletion of resources, and in terms of world poverty and hunger. If the objective is worthwhile, we must realize that in order to achieve it we must double contraceptive users in the developing world by the end of this decade and that time lost in this effort can never be recovered; and we must realize that the achievement of this objective will require substantial acceleration of funding for information, education, training and supplies. The question boils down to nothing less than how much we are willing to invest in a better quality of life for future generations, or, perhaps, the very survival of the human species.

FUTURE SUPPORT FOR POPULATION PROGRAMS

Senator **Kasten**. I thank you. As you know, the subcommittee and the subcommittee staff has enjoyed working with you and with members of your organization. We thank you for your contribution and for your efforts.

Also, as you know, we have on this subcommittee and in the full committee been generally supportive of the programs that you are talking about. Last year, I think you are aware of the fact that we did increase the budget request for population programs in a number of different categories.

Our problem, of course, is that I sit on the Budget Committee, and when you sit there with Pete Domenici and others trying to figure out how we are going to get from where we are to where we want to go and you look at these $200 billion deficits, these are difficult times.

But I am hopeful that we can once more be supportive. I thank you very much for your testimony.

Mr. Fornos. Thank you, Senator Kasten.

BREAD FOR THE WORLD

STATEMENT OF LANE VANDERSLICE, BREAD FOR THE WORLD

MISINTERPRETATION OF UNICEF FUNDING

Senator Kasten. Next is Mr. Lane Vanderslice, representing Bread for the World.

Mr. Vanderslice. Thank you, Mr. Chairman.

Senator Kasten. We are in the process of a record vote, and what I am hopeful of is that maybe Senator D'Amato could come back, and then what I will do is vote. Then we will hear from Mr. Lane Vanderslice, representing Bread for the World.

Before you begin, I want to just make it clear to you how concerned I am and other Members of the Senate have been with the way that you—not you personally, but your organization—have mischaracterized actions that some of us have taken personally, or more importantly, actions that some of us have taken as a committee or a subcommittee.

When you talk about actions with respect to UNICEF, I do not know if you went into other States outside of Wisconsin, but you went to a number of church groups and frankly lied to them. Instead of saying that we were adding money, which we did in the subcommittee and which I personally did, you said we were holding the line at—I think the number was $26 million. That information was incorrect. I am still getting letters back, and other Members, Republican Members of the Senate, still are having problems with the fact that your organization has simply mischaracterized the position that a number of us took.

I think it is also important to recognize that one of the things you were interested in and have come out with in a number of the materials is the fact that you supported the soft loan window of the World Bank, IDA. We added $100 million; I added $100 million in the full committee markup. It was cut on the floor of the Senate. And there were a number of other issues you are interested—and some of your publications have talked about—one of which is IFAD. We added money for IFAD.

I think it is important to recognize that if you are going to have credibility within the political community, whether it is Republicans, Democrats, Senate or House, that you cannot come out with fallacious statements. It is of great personal concern to me but, more importantly, it should be of concern to you because although you might have done some short-term political maneuvering out there in the grassroots, the damage done is more than that little bit of misinformation that for one reason or another your organization decided to put out.

I do not want to lecture you on it, but I just want you to know how strongly some of us feel about this. It is fine if we disagree, but I think it is very important that we stick to the facts.

Mr. Vanderslice. Yes. Well, let me spend a minute clarifying, because I think it is important for us to be on good terms since we are very often working for the same things. Bread for the World did make a mistake on the one part. Bread for the World is a grassroots organization, and I am afraid that this time instead of saying that, you know, the chairman's mark was—what was it—from $41 million to $37 million—that the chairman's mark was in fact $26 million. We simply made a mistake on that. And I have apologized to Jim. We have sent apologies to you—the person who made the mistake. And I would like to apologize again here in front of everyone else.

And in terms of the IDA question, at the time we sent out—I mean our members want to be informed on what is going on—at the time we sent out the brief statement on the IDA, the chairman's mark was in fact $700 million and did not reflect the later increase. I came here prepared today to thank you and do thank you for your efforts to increase the funding for both of these programs.

Senator KASTEN. Well, I do not want this discussion to count on your time.

Mr. VANDERSLICE. OK.

Senator KASTEN. But it is not just my concern; this is a concern that a number of people have. I mean none of us in this room are always going to agree on every single issue and we have got different sets of priorities to deal with. But I think it is critical that at least when you say something it is correct. I think you agree with me.

Mr. VANDERSLICE. Yes.

Senator KASTEN. Why don't you begin?

Mr. VANDERSLICE. All right. Fine.

Senator KASTEN. I am hopeful that we will not have to interrupt your testimony.

MEANS TO END WORLD HUNGER

Mr. VANDERSLICE. I would like to thank the subcommittee for the opportunity to appear before it. The subcommittee, as you know, has a very important and difficult task. And I would like to offer my appreciation for the ability and diligence with which this subcommittee carried out its job last year.

Bread for the World is a Christian citizens organization with 42,000 members dedicated to helping the people of the United States understand the cause of world hunger and take steps to end it. Bread for the World would like to devote its testimony to three things this year: Our support for the targeted development aid provision; opposition to such a large increase in military assistance; and a warning of the problems the current economic crisis has presented the poorest countries.

Bread for the World strongly supports the targeted development aid provision passed into law last December. This provision directs the administration to attempt to use at least 40 percent of AID's development budget to finance goods, services, or productive facilities that directly benefit people living in absolute poverty.

As you know, U.S. AID is to report by June on how much of this aid benefits the absolutely poor. We believe that substantial portions of U.S. AID should directly benefit poor people. Too often, governments, including our own, fail to focus on the important tasks of improving the lives of poor people. Programs that provide the poor with access to credit, with agricultural extension services, with improved water and sewage facilities or with low-cost public health measures represent the best use of U.S. development dollars.

Bread for the World will be interested to see the results of this report as we advocate extending and eventually strengthening the 40-percent poverty target.

OPPOSITION TO MILITARY ASSISTANCE INCREASES

Second, Bread for the World opposes the large proposed increase in military assistance, including the Economic Support Fund [ESF]. We believe it is necessary to do so for a number of reasons.

First, recent years' large increases in military assistance and ESF has provided more than reasonable ability to fund military assistance programs.

Second, to fund this year's large requested increase in the face of the Government's financial crisis and limited funding ability would effectively mean a loss of development assistance to aid the world's poor.

Third, the foreign policy of the administration is still based on an analysis of the world which is only partially correct. The focus of the Reagan administration has been United States-Soviet relations. The developing countries are seen primarily in the context of East-West confrontation. The Third World is perceived as an extremely important arena because it is thought to be a major area where this confrontation is played out.

Such considerations are an important part of reality. Nonetheless, they are only a part of this reality and are harmful if acted upon in isolation. We believe that communism's appeal to the people of the Third World and the threat to us is caused by fundamental problems of poverty and governments which often violate their citizens' civil, political, and economic rights. Military aid not only does not attack these problems but typically makes them worse. Failure to understand these problems and to assist the people of the Third World in dealing with them places the United States in danger of conflicting with the interests of the majority of these countries.

SUBCOMMITTEE RECESS

Senator **Kasten**. I would ask that you pause right there, as that is a logical place to stop. Evidently Senator D'Amato is not coming and I will miss the vote. So I will have to recess the hearing at this point.

[Whereupon, at 12:30 p.m., the subcommittee recessed, to reconvene at 2:35 p.m., the same day.]

(AFTERNOON SESSION 2:35 P.M., THURSDAY, MARCH 10, 1983)

NONDEPARTMENTAL WITNESSES

BREAD FOR THE WORLD

STATEMENT OF LANE VANDERSLICE (Resumed)

HEARING PROCEDURE

Senator **RUDMAN** [presiding]. The subcommittee will be in order.

The chairman, Senator Kasten, sends his apologies for the late start. As some of you may know, he is involved in a very important matter on the floor. He had hoped that it would take less time and it is taking, as is often the case, more time.

We are going to have a number of witnesses. This is a classic case of the chairman being here because of his availability, as opposed to his ability. [Laughter.]

I do not want to rush you all, but we will try to keep you within the limits set by the subcommittee. I understand that Mr. Vanderslice is here now. You are Mr. Vanderslice. Why not proceed?

Mr. **VANDERSLICE**. Thank you.

MILITARY ASSISTANCE A DETRIMENT TO WAR ON POVERTY

Fourth. Military assistance works against ending poverty. The existence of poverty is a threat to the security of hundreds of millions of people in the world; that is a well-documented fact. Over 500 million people face hunger as a major problem. The United States will not be truly secure unless these people are reasonably secure, also.

Arms imports use foreign exchange that could otherwise be used to increase people's real incomes. This is an important but often overlooked factor in reducing economic growth. In sub-Saharan Africa, for example, arms, as a percentage of total imports, rose from 1.3 to 9.3 percent between 1969 and 1978. They are almost certainly higher today.

According to Lance Taylor, an economist at MIT, econometric studies indicate that each dollar spent on arms reduces domestic investment by about 25 cents and agricultural output by 20 cents. This is a severe blow against the world's poor who need investment to progress and food to live.

CIVIL AND POLITICAL RIGHTS OF THIRD WORLD NATIONS

Fifth. Military assistance works against the civil and political rights of people in Third World countries. In the 1981 survey by Freedom House, a nonpartisan agency surveying the state of liberty in the world, of 119 Third World countries—including Communist ones—55 were evaluated as not free; 47 as partially free, and only 17 were considered as free. Over 20 governments in the West were considered as military governments. All fell in the "not free" or "partially free" categories.

The Third World is still struggling with, and hopefully emerging from "government of the few for the few," which the military plays a central role in maintaining. This has extremely important consequences for military assistance to Third World countries.

In giving military assistance, then, not only the U.S. need for allies must be examined but also the role of the military in the society in question, as it may often be a factor working against reasonable security needs of the people of these countries.

Our third point concerns the lack of balance between U.S. development assistance and military assistance. We believe this shift of focus results from an overemphasis of the military crisis and a corresponding lack of attention to the effects on the poorest countries of the current economic crisis.

The overall decline in commodities prices has had a devastating effect on the poorest countries. The 1982 World Bank Annual Report notes "the drop in international commodity prices—excluding petroleum—was 14.5 percent in 1981 compared with 1980 levels, and slipped an additional 8 percent in the first 6 months of 1982. Thus the terms to trade for the developing countries are the lowest in over 20 years.

The U.S. economy is increasingly dependent on the health of developing countries. While one-third of U.S.-manufactured exports and one-fifth of total U.S. agricultural production go to developing countries, U.S. industry depends on critical raw material imports from these countries. U.S. economic health is increasingly dependent on a relationship with developing countries that recognizes the importance to our economy of their long-term stability.

Though in recent years the military establishments of those countries have had their aid largely increased and the middle-income countries have had access to private capital as well as relief from the International Monetary Fund, the poorest countries have had their major source of funds, development assistance, held constant at best.

Though the main volume of the Congressional Presentation for fiscal year 1984 notes that "peaceful economic development and the political stability it engenders depend on meeting the needs and aspirations of people living at or near the poverty level," we do not feel this realization is adequately reflected in the administration's request.

Bread for the World believes a more balanced view of military and development assistance is necessary to provide the security both to the countries of the Third World and to the United States. For this reason, Bread for the World supports increased funding to such agencies as IFAD, UNICEF, IDA, and the Health account of USAID that direct much of their assistance to the absolutely poor.

FUNDING LEVELS

Bread for the World would like to seek funding of at least $990 million for IDA, $70 million for IFAD, $50 million for UNICEF, and $133 million for the Health account of the U.S. Agency for International Development.

Thank you, Mr. Chairman.

[The prepared statement of Lane Vanderslice follows:]

PREPARED STATEMENT OF DR. LANE VANDERSLICE

BREAD FOR THE WORLD

I would like to thank this subcommittee for the opportunity to appear before it. This subcommittee has a very important and very difficult task. Let me offer my appreciation for the job this committee did last year in attempting to increase development assistance.

Bread for the World is a Christian citizens organization with 42,000 members dedicated to helping the people of the United States understand the causes of world hunger and take steps to end it.

Bread for the World would like to devote its testimony to three things this year: our support for the Targeted Development Aid Provision; opposition to such a large increase in military assistance; and a warning of the problems the current economic crisis has presented the poorest countries.

I

Bread for the World strongly supports the Targeted Development Aid provision passed into law last December. This provision directs the administration to attempt to use at least 40% of AID's 1.4B$ development aid budget to finance goods, services or productive facilities that directly benefit people living in absolute poverty. As you know, USAID is to report by June on how much of this aid directly benefits the absolutely poor. We believe that substantial portions of USAID should directly benefit poor people. Too often governments, including our own, fail to focus on the important tasks of improving the lives of poor people. Too often, the poor lack political power proportional to their numbers. This occurs especially where the government is only intermittently democtatic, or where the military plays a central role. Thus poor people are unable to benefit from government services or a growing economy. Programs that provide the poor with access to credit, with agricultural extension services, with improved water and sewage facilities, or with low-cost public health measures represent the best use of U.S. development dollars. Bread for the World will be interested to see the results of this report, as we advocate extending and eventually strengthening the 40% poverty target.

II

Bread for the World opposes the large proposed increase in military assistance, including ESF. We believe it is necessary to do so for a number of reasons.

1. Recent years large increase in military assistance and ESF has provided more than reasonable ability to fund military assistance programs.

2. To fund this year's large requested increase in the face of the government's financial crisis and limited funding ability would effectively mean a loss of development assistance to aid the world's poor. If the administration's FY84 request is granted, the foreign aid program will have grown by 4.5 billion from FY81 to FY84. The majority of this increase will have gone in an approximately 3.9 billion shift to security assistance against an approximately .5 billion shift in development aid. This represents an $8 addition in security assistance for every dollar in development aid.

3. The foreign policy of the administration is still based on an analysis of the world which is only partially correct. The focus of the Reagan administration has been U.S.-Soviet relations. The developing countries are seen primarily in the context of East-West confrontation. The Third World is perceived as extremely important, because it is one arena where this confrontation is played out.

Such considerations are an important part of reality. Nonetheless they are only a part of the reality and could be harmful if acted upon in isolation.

We believe that communism's appeal to the people of the third world--and threat to us-- is caused by fundamental problems of poverty and governments which often violate their citizens civil, political, and economic rights. Military aid not only does not attack these fundamental problems, it typically makes them worse. Failure to understand these problems and assist the people of the Third World in dealing with them places the United States in the danger of conflicting with the interests of the majority in these countries, as the poor are by reasonable definitions of poverty the majority.

4. The existence of poverty as a threat to the security of hundreds of millions is a well documented fact. Over 500 million people face hunger as a major problem. The U.S. will not be truly secure unless the people of the world are reasonably secure also. "One of the most potentially explosive forces in the world today is the frustrated desire of poor people to attain a decent standard of living," concluded the Presidential Commission on World Hunger. The Commission was comprised of public and private citizens, Democrats and Republicans, conservatives and liberals.

Military assistance works against ending poverty. As noted, the administration has substantially increased military assistance, not assistance that would help the poor of the world. Arms imports use foreign exchange that could otherwise be used to increase people's real incomes. This is an important, but often overlooked factor in reducing economic growth. In sub-Saharan Africa, for example, arms as a percentage of total imports rose from 1.3 to 9.3 percent between 1969 and 1978, and are almost certainly higher today. According to Lance Taylor, an economist at MIT, econometric studies indicate that each dollar spent on arms reduced domestic investment by about 25 cents and agricultural output by 20 cents. This is a severe blow against the world's poor who need investment to progress and food to live.

The study also found that military spending was inflationary. It competed for resources that are scarce in developing countries, such as foreign currency, skilled labor, and machinery, and reduced the supply of consumer goods. The Turkish military for example, is one of the largest recipients of U.S.military aid. It has been described as a severe drain on the Turkish economy by Justin Galen writing in the "Armed Forces International Journal".

5. Military assistance works against the civil and political rights of people in Third World countries. In the 1981 survey by Freedom House, a non-partisan agency surveying the state of liberty in the world, of 119 Third World countries (including Communist ones), 55 were evaluated as not free, 47 as partially free, and only 17 considered as free. Partially free includes such countries as El Salvador, where it is admitted that the very high level of violence, often by government forces, greatly limited most rights during 1981. Over 20 governments in the West were considered as military governments. All fell in the free or partially free categories.

The Third World is still struggling with, and hopefully emerging from, government of the few for the few, which the military plays a central role in maintaining. This has extremely important consequences for military (and ecomonic) assistance to Third World countries.

In giving military assistance, not only the U.S. need for allies must be examined, but also the role of the military in the society in question, as it may often be a factor working against reasonable security needs of the people.

If the people are opposed to a government, making that government our ally in a conspicious fashion may well work against our security interests if a government is forced out. Iran is a classic example. The U.S. needs to approach military aid to Pakistan, Turkey and Central America with caution, to avoid creating a similar situation.

Pakistan is a clear case in point. The rationale for large amounts of military assistance to Pakistan is to strengthen it as an ally that borders on Afghanistan. Yet General Zia, Pakistan's president, came to power in a coup replacing the elected President Bhutto. Bhutto was later executed by the Zia government for corruption, which has earned the animosity of what was previously the governing party. Zia has acted to restrict Pakistan's previously independent judiciary. A critique of the U.S. approach has been made by Selig Harrison, a senior associate of the Carnegie Endowment.

"By over-identifying itself with the repressive, narrowly based military junta in Islamabad, the United States is driving Pakistani opposition leaders into an increasingly anti-American, pro-Communist posture, progressively foreclosing the possibility of constructive U.S. relations with future Pakistani regimes. In particular, American identification with rule by the army, which is overwhelmingly dominated by Pakistan's majority ethnic group the Punjabis, has aligned the United States squarely against restive Baluch, Sindhi, and Pushtan minorities. These groups make up 42 percent of Pakistan's population and occupy 72 percent of the countries land area."

Similar situations exist in the other countries mentioned. Our security not only depends on military defense against the Russians, but in maintaining good relations with the various peoples of the world.

6. These considerations apply not only to military assistance but to development assistance as well. Thus Bread for the World has opposed aid that does not directly benefit the needy in countries like Zaire and Haiti, where the government clearly does not seem to be acting in the people's interest. Rather, Bread for the World has worked to target Multi- and Bi-lateral assistance directly to the poor, in the belief that targeted Development Assistance is also Secutity Assistance. When we are helping people overcome their major problems, we have created a more stable world.

III

Our third point concerns the lack of balance between U.S. development assistance and military assistance. We believe this shift of focus results from an overdrawn analysis of the military crisis, and a corresponding lack of attention to the effects on the poorest countries of the current economic crisis.

The overall decline in commodities prices has had a devastating effect on the poorest countries. The 1982 World Bank Annual Report notes "the drop in international commodity prices (excluding petroleum) was 14.5% in 1981 compared with 1980 levels, and slipped an additional 8% in the first six months of 1982." The dependence of many developing countries on the export of one or two commodities has left them with their lowest terms of trade ratio in 20 years or more. The World Bank Report also notes that the developing countries face deteriorating export opportunities as well as poor prospects for commercial borrowing.

The U.S. economy is increasingly dependent on the health of developing countries. While one-third of U.S. manufactured exports and one-fifth of total U.S. agricultural production go to developing countries, U.S. industry depends on critical raw material imports from these countries. U.S. economic health is increasingly dependent on a relationship with developing countries that recognizes the importance to our economy of their long-term stability.

Though in recent years the military establishments have had their aid largely increased, and the middle-income countries have had access to private capital as well as relief from the IMF, the poorest countries have had their major source of funds, development assistance, dramatically reduced.

Though the Main Volume of the Congressional Presentation for FY84 notes that "peaceful economic development and the political stability it engenders depend on meeting the needs and aspirations of people living at or near the poverty level," we do not feel this realization is adequately reflected in the administration's request.

The administration's efforts to shift the balance from development to military assistance threatens U.S. interests in development cooperation as well as the effectiveness and possibly even the existence of such international agencies as the IDA, the International Fund for Agricultural Development (IFAD), UNICEF, and the Health account of USAID.

Bread for the World believes a more balanced view is necessary to provide security both to the countries of the Third World and to the U.S.. For this reason, Bread for the World supports increased funding to such agencies as those mentioned (IDA, IFAD, UNICEF, and the Health account of USAID) who target their assistance to the absolute poor. Bread for the World seeks funding of 990 million for IDA, 70 million for IFAD, 50 million for UNICEF, and 133 million for the Health Account of USAID.

MISUSE OF FUNDS UNDER IFAD

Senator RUDMAN. Thank you.

I might just comment on the last part of your presentation, that our reluctance to fund IFAD has nothing to do with the principles for which it was established, but has a great deal to do with the fact that the countries who were supposed to discharge the obligations under IFAD had continually refused to do so and used the money for things other than food—for Mercedes automobiles, fancy offices, highly paid bureaucrats, travel, and the like.

I was the member of this subcommittee that insisted that funding for it be eliminated until they start spending the money what it was supposed to be spent for. I will continue to do that.

So, I think you ought to take a good look at IFAD before you support it here before the committee.

Mr. VANDERSLICE. Senator, if I may respond.

Senator RUDMAN. You certainly may; it is a free country.

Mr. VANDERSLICE. I was not on the spot so I did not see the Mercedes automobiles. But in terms of the level at which their project assistance—I mean the ratio of administrative expenses to project assistance, we feel that is at a very reasonable level.

Senator RUDMAN. Finally.

Mr. VANDERSLICE. We also feel that what IFAD is doing, that is to say targeting its efforts toward agriculture and not only toward agriculture but to the poorest in agriculture is something that is very important and should be maintained.

I think we are in support of, we are in general support of the Senate and the House and their willingness to prod bureaucracies into functioning better. I certainly would not want to set that aside.

But we also believe that it is a very important function and we would not like you to let the Agency stop functioning because of these problems. We hope that there is a commitment to seeing these problems through and providing full funding.

Senator RUDMAN. Well, you are aware that OPEC was supposed to supply a full 50 percent of the funding to IFAD. They have come up with 43 percent after much prodding. So, they are still considerably under that.

The United States had been making up that difference and we stopped doing that 2 years ago. I think that OPEC can probably afford to discharge its obligation as much as we can.

So, we will hopefully look at the amount that they have contributed for this forward-funding fiscal year, and then we will act accordingly.

Mr. VANDERSLICE. Well, I think that something in line with that and something more than $45 million would be the result of this.

Senator RUDMAN. Thank you very much for your testimony.

Mr. VANDERSLICE. Thank you.

POPULATION CRISIS COMMITTEE

STATEMENT OF HON. ROBERT TAFT, JR., MEMBER OF THE BOARD OF DIRECTORS, POPULATION CRISIS COMMITTEE

ACCOMPANIED BY:

SHARON CAMP, VICE PRESIDENT, POPULATION CRISIS COMMITTEE

COMMITTEE ACTIVITIES

Senator RUDMAN. Next we have the Honorable Robert Taft, Jr., who is a member of the Board of Directors of Population Crisis Committee.

Senator, very nice to see you.

Mr. TAFT. It is very nice to see you.

Mr. Chairman and members of the committee and staff, I thank you for the opportunity to appear here today on behalf of the Population Crisis Committee in which I am a member of the board of trustees.

Sharon Camp, the vice president of the organization, is here with me today.

The Population Crisis Committee is a private nonprofit organization advocating at home and abroad Government contributions and commitments to population planning and selective support of innovative private family planning programs in developing countries.

We received no U.S. Government money for any part of our U.S. operations or overseas grant programs.

I would like to make six simple points today on this bill.

First, for 20 years now there has been strong bipartisan support of the program.

Second, the U.S. program on international population assistance is entirely compatible with the President's position on abortion.

Third, the cost effectiveness of population assistance programs to economic and security assistance is high on the congressional priority list.

Fourth, the rate of population growth is decreasing, but the number of people added each year to the world population is still increasing and increasing at a fairly rapid rate. The former trend shows the efficiency of the policy responses to date. The latter indicates a need to accelerate those efforts further.

Fifth, the demand of the developing country governments for direct bilateral aid is now so great that without increased funding in the fiscal year 1984, AID will have to reduce dramatically its support of multilateral and private nonprofit programs.

Finally, the roots of current economic and political crises in developing nations are intertwined with demographic pressures and are a critical factor in our efforts to avoid political and economic instability.

AID POPULATION PROGRAMS

Going to the first point, in 1984 the appropriation for AID population programs will be considered in the larger context of nearly two decades of congressional initiatives. It was the Congress that initially earmarked funds for population programs and insisted that AID spend them.

Indeed, I am personally aware of that for I served on the House Foreign Affairs Committee at that time and was the advocate of the first earmarking amendment in the 1967 Congress. That was followed by several years of earmarking after that before the item became a line item.

The level of support of both Democratic and Republican Presidential candidates and officeholders for population is reflected by a number of public statements.

Dwight D. Eisenhower, for instance, said:

> If we now ignore the plight of those unborn generations which because of our unreadiness to take corrective action in controlling population growth will be the denied any expectations beyond abject poverty and suffering, then history will rightly condemn us.

Lyndon Johnson said:

> Less than $5 invested in population control is worth $100 invested in economic growth.

As pointed out, the programs are consistent with both the administration's position on abortion and with the concern of many Members of Congress that U.S. foreign aid funds not be channeled into abortion activities of any kind.

ABORTION SERVICES

The Foreign Assistance Act contained a prohibition on the support of abortion services since 1973. The last Congress closed any remaining loophole by prohibiting biomedical research in abortion methods. Repeated audits of population assistance grantees should assure Congress that the program is in full compliance with the congressional prohibitions on the use of Federal funds.

Even among international or private nonprofit agencies which receive support from other government and private donors, abortion-related activities represent only a minuscule part of total family planning programs and involve research and training primarily designed to provide more effective medical treatment for the life-threatening complications of illegal abortion—a growing public health program in many developing countries.

But these private efforts are not supported with U.S. Government funds. Controversy over foreign aid and abortion really has no basis in fact.

International family planning assistance is one of the most cost effective of our programs. Averting unwanted births reduces the pressures on developing countries for more schools, hospitals, housing, and other service needs of their people.

Many factors are thought to affect family size, family planning. Services have the most direct effect of the many factors that are thought to affect family size and family planning service. The most direct effect with the least cost is this program.

Experts estimate that the provision of subsidized family planning services will avert one unwanted birth in a low-income developing country at an average cost of $22. To accomplish the same results through investments in female education and through infant mortality, would respectively cost $160 and $800.

I am not in any way running down those programs which are very worthy ones but as to cost effectiveness for this purpose they just do not match up.

If global resources for family planning could, for example, be doubled over the next decade from $1 billion to $2 billion, we could confidently expect something close to a doubling of contraceptive prevalence from 25 percent to 50 percent of the target population and this, in turn, would result in a reduction from 35 to 28 births per 1,000 population which would result in 1 billion less people some 30 years later.

Thus, substantially increased appropriations could have dramatic results. Expanding world population growth is a highly tractable problem. We do know how to prevent it inexpensively.

GLOBAL POPULATION PROBLEMS

Next, the population problem is one that is far from hopeless. There still is an urgent need. As a result of public and private family planning efforts in the developing world today, about one-third of married women age 15 to 45 have some access to family planning services. At any one time, 20 percent are effectively practicing family planning, up from about 3 percent in the mid-1960's.

This has resulted in a decline of the annual global population growth from a high of 2 percent in the 1970's to the present level of 1.7 percent. Birth rates in over 30 developing countries have declined between 20 and 60 percent during the past decade.

However, with current trends, by the year 2000 the women of reproductive age will have increased by 33 percent. Most of these women have already been born. Thus, the cost of the higher contraceptive prevalence level goes up with every year if we delay in meeting the family planning needs of today's couples.

Moreover, we have the institutional capability through multilateral and private channels to move ahead faster and to spend effectively nearly twice as much as what has been requested for population assistance this year. Private population organizations, for example, have with AID funding developed in the last 15 years extensive expertise.

More cuts are expected in fiscal year 1984 if the budget remains at $212 million. Some cuts already had to be made at this level figure that have been carried for the last 2 or 3 fiscal years.

We are asking and suggesting that the committee authorize $235 million for this year. It is not so much that more money is not needed because there are some $250 million worth of projects that are approximately ready to go—many of them approved by the reviewing agencies at this time—we feel that this figure is a realistic one. It is particularly realistic as a mere 10-percent increase when we view an increase of 11 percent in economic support and 21 percent in security assistance.

Finally, I just want to close by talking for a moment about long-term population pressures in relationship to the problems of the international crisis.

POPULATION PROBLEMS IN OTHER COUNTRIES

Countries having a population growth four or five times higher than Western industrialized countries, and their growth rates translate into doubling times in just 20 to 30 years. Rising expectations of a burgeoning population means that these countries will have to accumulate huge external debts. Over the last decade, economic growth has been absorbed by population growth.

I have given in my prepared statement a review of Mexico City particularly and of Cairo particularly indicating, for instance, in Cairo that squatter settlements are estimated to comprise some 60 percent of the city. More than 80 percent of Cairo's growth is attributable to high urban birth rates, with the remainder due to migration from rural areas related to this.

Now, Egypt has a good ongoing program and they are attempting to make progress. But unfortunately, if we do not continue our support and perhaps increase it and encourage others to increase it, we are going to run into difficulties, I think, in that area that we have not even seen as yet.

Finally, according to such persons and observers as Gen. William Westmoreland and Gen. Maxwell Taylor—both members of the board of this organization—and others concerned with security interests, the pressures provide a demographic basis for growing civil disorder, political instability, and regional conflict are grounded in great part in the population program. Nothing could be more in our interest and theirs than a program designed to lessen population pressures.

These programs deserve to receive all the resources that they can effectively spend.

Thank you.

[The prepared statement of Hon. Robert Taft, Jr., follows:]

PREPARED STATEMENT OF HON. ROBERT TAFT, JR.

MEMBER, BOARD OF DIRECTORS

POPULATION CRISIS COMMITTEE

Mr. Chairman, Committee members. Thank you for the opportunity to appear today on behalf of the Population Crisis Committee.

PCC is a private non-profit organization which has, since its establishment in 1965, been a leader among population organizations in the effort to strengthen political and financial support for family planning programs overseas. Our work involves high-level advocacy at home and abroad to increase government commitment to population planning and also selective support of innovative private family planning programs in developing countries. It is perhaps important to state that we receive no U.S. government money for any part of our U.S. operations or overseas grant programs. Thus, while we may express strong opinions about the direction of U.S. population assistance, these comments are not motivated by any fiduciary interest in the program.

In my testimony today I wish to make six simple points. First, U.S. involvement in international population assistance has had strong bipartisan support for almost twenty years and it should continue to be a bipartisan issue. Second, the present U.S. program in international population assistance is entirely compatible with the President's position on abortion. Third, the cost-effectiveness of population assistance programs should place it high on the Congressional priority list, particularly in a year of budget constaints. Fourth, the rate of population growth is decreasing, but the number of people added each year to the world population is increasing. The former trend indicates the efficiency of our policy responses to date. The latter indicates the need to accelerate our efforts further. Fifth, the demand of developing country governments for direct bilateral aid for population programs is now so great that without increased funding in FY 1984 AID will have to reduce dramatically its support of multilateral and private non-profit programs. These programs have to be sustained. They are highly important. Finally, the roots of current economic and political crises in developing nations -- and the resolution of these crises in the long term -- are intertwined with demographic pressures which must be understood as a critical factor in our larger efforts to avert political and economic instability throughout the developing world.

1. I hope that the decisions facing this committee regarding a Fiscal Year 1984 appropriation for AID population programs will be considered within the larger context of nearly two decades of Congressional intitiatives on population.

   In the 1960's and 1970's, I was active in Congressional efforts as were many other Members from both sides of the aisle. They included, in the Senate, Mark Hatfield, William Fulbright, Joseph Tydings, Joseph Clark, Clifford Case and Ernest Gruening and in the House, Tim Lee Carter, Pierre DuPont, Herman Schneebeli, Harold Cooley, Thomas Morgan, Paul Findley, Wayne Hays and then -- Congressman Spark Matsunaga. It was Congress who initially earmarked funds for population programs and insisted that AID spend them. And it was Congress which year after year raised the level of funding for these programs above Administration request levels. In time the Executive branch came around and less Congressional prodding was necessary to elicit strong program support from the Johnson, Nixon and Ford Administrations. The level of support which both Democratic and Republican presidents gave to population efforts are reflected in a number of public statements. For example, in 1965 hearings were opened with a statement by former President Dwight D. Eisenhower: "If we now ignore the plight of those unborn generations which, because of our unreadiness to take corrective action in controlling population growth, will be denied any expectations beyond abject poverty and suffering, then history will rightly condemn us."

   In 1966, when signing new legislation promoting population assistance, President Lyndon B. Johnson noted that: "The sound population programs encouraged in this measure . . . are vital to meeting the food crisis, and to the broader efforts of the developing nations to attain higher standards of living for their people." In another context Johnson noted that "less than $5 invested in population control is worth $100 invested in economic growth."

In 1969 President Richard Nixon made it clear that he and his new Administration fully shared these sentiments. He said: "One of the most serious challenges to human destiny in the last third of this century will be the growth of the population. Whether man's response to that challenge will be a cause for pride or despair in the year 2000 will depend very much on what we do today."

For the last several years, however, AID population programs have to some extent been running on earlier momentum. Both this Administration and its Democratic predecessor have tended to give population programs too little emphasis, and this flagging support has occurred at the very time when developing countries, now alert to population pressures, are turning to the U.S. for more and more assistance. A new infusion of high-level support from Congress is necessary to ensure that the program continues in an effective and innovative way to meet the growing demands for population and family planning programs in developing countries. This is an issue that can and must attract Republicans and Democrats, liberals and conservatives. It must not become the victim of other battles over American foreign policies or domestic social issues.

2. It is important to point out that these programs are consistent both with the Administration's position on abortion and with the concern among many members of Congress that U.S. foreign aid funds not be channeled into abortion activities of any kind.

The Foreign Assistance Act has contained a prohibition on the support of abortion services since 1973 and the last Congress closed any remaining loophole in the law by prohibiting biomedical research on abortion methods.

AID's recent policy paper on population assistance covers these concerns in very great detail; repeated audits of population assistance grantees should assure Congress that the program is in full compliance with Congressional prohibitions on the use of federal funds. Even among international or private non-profit agencies which receive support from other government and private donors, abortion-related activities represent a miniscule part of total family planning programs and involve research and training, primarily designed to provide more effective medical treatment for the life threatening complications of illegal abortion -- a growing public health problem in most developing countries. But these private efforts are not supported with U.S. government funds. Controversy over foreign aid and abortion has no basis in fact. Given the compatibility of U.S. international population assistance with the anti-abortion position -- and the urgency of population problems worldwide -- we should move forward expeditiously to draw upon and build the broad bipartisan support which international population assistance has traditionally enjoyed.

3. International family planning assistance is one of the most cost effective programs receiving U.S. government support. This program has been demonstrated to help the expanding numbers of couples in LDC's interested in limiting the size of their families do so -- inexpensively. This program helps the numerous developing nations that want to reduce exponential birthrates to do so -- more quickly and competently than other humanitarian or economic development approaches. Over the long term -- that is to say, in one generation -- averting unwanted births reduces the pressures on developing countries for more and more schools, hospitals, housing and other services needed by their people. Although many factors are thought to affect family size, family planning services have the most direct effect at the least cost.

Experts estimate that the provisión of subsidized family planning services will avert one unwanted birth in a low-income developing country at an average cost of $22. To accomplish the same result through investments in female education would cost $160 per unwanted birth averted, and through reductions in infant mortality, some $800 per unwanted birth averted. Health and education programs are, of course, well justified in their own right. The point is simply that the expansion of family planning services is the most timely and cost-effective way to reduce rapid rates of population growth. If global resources for family planning services could, for example, be doubled over the next decade from about $1 billion to $2 billion, we could confidently expect something close to a doubling of contraceptive prevalence by 2010 -- from 25 percent to 50 percent of the target population. A 50 percent prevalence rate in 2010, resulting in a birthrate decline from 35 to 28 births per 1,000 population, would result in a billion fewer people thirty years later.

I am confident that a substantially increased appropriation could have dramatic results. Since 1966, when the first population funds were allocated, AID and the organizations it supports have gained considerable experience in a range of policies and programs designed to bring about rapid declines in birth rates. This experience convinces us that we can do a great deal to affect contraceptive practice by providing subsidized family planning services and by creating a political climate that promotes the social and individual benefits of contraceptive use and smaller families. One of the most important lessons learned from a decade of AID experience is that illiterate rural women will practice contraception just as readily as educated urban women if services are easily available at the village level from people they know and trust and if community leaders are committed to the program.

Unlike some of the other problems which this committee must address, swiftly expanding world population growth is a highly tractable problem. We do know how to prevent it inexpensively. What we must do is supply the necessary resources -- resources which will bring welcome benefits (including high-yielding economic benefits) to all within a generation.

4. In a word, the population problem is not hopeless. It is, however, still urgent. While birthrates are declining, the absolute numbers of people continue to rapidly expand, thereby creating an ever larger base for future population growth. As a result of public and private family planning efforts, in the developing world today about one-third of married women aged 15 to 45 have some access to family planning services. At any one time about 20 percent are effectively practicing family planning (up from about 3 percent in the mid 1960s). The increase over the last decade in contraceptive services, as well as in socio-economic changes encouraging their use, has resulted in a decline of the annual global population growth rate from a high of 2 percent in the early 1970s to the present level of 1.7 percent. Birthrates in over 30 developing countries have declined by 20 to 60 percent during the past decade.

However, as long as population grows, so does the future number of married couples in need of family planning services. With current trends, by the year 2000 the number of women of reproductive age will have increased by 33 percent. Most of these women are already born. Thus the cost of reaching higher contraceptive prevalence levels goes up with every year that we delay in meeting the family planning needs of today's couples. Those of us who have devoted many years of work to this effort are dismayed by the failure to intelligently push forward programs which will reduce the future costs not only of population efforts, but of all efforts to achieve a prosperous and peaceful world.

5. We have the institutional capacity, not only through our bilateral programs but through multilateral and private channels, to move ahead much faster and to spend effectively nearly twice what the Administration has requested for population assistance. Private population organizations funded by AID, for example, have developed in the last 15 years extensive expertise in such work as community-based contraceptive distribution programs, survey research, evaluation of new contraceptive methods, and medical training.

By using such agencies as intermediaries, a relatively small staff at AID is able to start programs rapidly, to exert good managerial influence over these programs, and yet to keep the U.S, government in a position of relatively low visibility in countries where bilateral support would be inappropriate. Some of these agencies are experiencing serious cuts (up to 30 percent) this year. More cuts are expected in FY 1984 if the budget remains at $212 million. We are hopeful that the Senate Foreign Relations Committee will provide a new authorization level for population assistance of $235 million and that the House authorization level will be considerably higher. I would encourage this subcommittee to set the appropriation for FY 1984 as close as possible to the level authorized.

In both FY 1982 and FY 1983, Congress recognized the importance of multilateral population assistance through the U.N. Fund for Population Activities by earmarking 16 percent of the population account for this uniquely effective U.N. Agency. UNFPA activities not only reach many countries which have no AID bilateral programs, they also establish the legitimacy of population concerns among both developing countries and other donor countries who match US contributions more than four to one. AID intends to reduce the US contribution to UNFPA from $34 million to $25 million in FY 1984. Ironically, 1984 is the year of the World Population Conference in Mexico City, for which UNFPA is the lead agency. We couldn't send a less appropriate signal to countries whose interest was originally sparked by U.S. initiatives. As the successes of the population assistance programs have become more widely known throughout the world, requests have multiplied from governments directly to AID for bilateral funding, to UNFPA and to private non-profit organizations with decades of effective work in family planning. The result is that in FY1984, total available population assistance -- unless it is increased -- will fall short of existing project requests by over $250 million. This estimate is based on specific shortfalls for U.S. bilateral country programs; unfunded projects at UNFPA; shortfalls among AID's private non-profit intermediaries in the family planning services area; training program shortfalls in unmet commodity requirements and operations research; and other policy and program development shortfalls.

6. Long-term population pressures are closely related to both the origins and the resolution of pressing international crises. When I testified before this committee almost two years ago, I stated that "continued high rates of population growth place unreasonable demands on the already shaky economic and political structures of most developing countries. If economic conditions worsen worldwide, many of these countries will move even closer to the brink of bankruptcy..."

In my testimony, I explained that these countries have population growth rates four to five times higher than Western industrialized countries, and their growth rates translate into population doubling times of just 20 to 35 years. I explained that in an effort to satisfy the rising expectations of a burgeoning population, these countries have accumulated huge amounts of external debts. Over the last decade, economic growth was absorbed by population growth. It was used to simply sustain subsistence for larger and larger numbers of people. Without adequate reductions in the extraordinarily rapid rate of population growth, governments, like individual households, had to spend most resources just to feed, clothe and house the growing human family. Savings at the household and at the national levels were not generated in sufficient amounts to support needed investment. To sustain economic growth these countries leaned heavily on foreign borrowing. Now, with heavy external debts, recession and tightening credit from Western banks, many are indeed on the verge of bankruptcy.

In several Latin American and African countries (for example Panama and Zimbabwe), high rates of population growth mean that per capita GNP is actually declining, and in a number of others (for example Mexico and Pakistan) it is barely holding its own.

It is now clear that without strong, immediate action to curb population pressures, regardless of what is done this year or next to address the indebtedness of developing nations, most of these countries will be unable over the next 20 years to maintain the kinds of open, stable economic and political institutions that are compatible with U.S. interests.

For population pressures are with increasing frequency an important conditioning factor to political upheavals. The inevitable clash between rising expectations and diminishing hopes undermines public confidence in free market economic institutions and democratic political ideals. As resentment and frustration grow, new opportunities are created for extremist forces of both the right and the left. These pressures are particularly acute in the cities of developing nations. Mexico City had only 5 million people 20 years ago. Today it is one of the world's largest cities, with 15 million people. In the next 20 years, at current growth rates, it is projected to top 30 million. Perhaps more than half of Mexico City's present inhabitants live in squatter settlements which are estimated to double in size every eight years, more than twice as fast as the city as a whole. In Cairo, to take another example, squatter settlements are estimated to comprise of 60 percent of the city. More than 80 percent of Cairo's growth is, moreover, attributable to high urban birthrates with the remainder due to migration from rural areas.

Because of rapid population growth over the past two decades, developing country populations are very young. These young people, in the volatile 15-25 age group, make up the bulk of migration to urban areas. In many developing countries some two-thirds of the urban population is under the age of 25. Unemployment rates among these urban youth are 30 percent or higher in most of the capital cities.

According to Gen. William Westmoreland, Gen. Maxwell Taylor and others concerned with U.S. security interests, these pressures provide a demographic basis for growing civil disorder, political instability and regional conflict.

Whatever immediate action we take to attenuate the multitude of international crises facing us, we should also be farsighted enough to work now on those underlying population factors contributing to urban chaos and problems of governance throughout the developing world. Reductions in rapid population growth will not ensure prosperity and stability and will certainly not do so in the short run. But uncontrolled population growth will certainly ensure that many countries important to U.S. interests will find it increasingly impossible to meet the legitimate development goals of their people. And, against a background of popular frustration, urban squalor and unemployment, they will also find it impossible to defend themselves against internal upheaval and external threats to their independence except by excessive dependence on military force and repression.

Nothing could be more in our interests and theirs than programs designed to lessen population pressures. These programs deserve to receive all the resources they can effectively spend.

BUDGET REQUEST

Senator **Rudman**. Senator Taft, thank you very much.

As I am sure you know, in fiscal year 1983 the administration's request was $201 million. This subcommittee increased that to $211 million. This year, the administration request is $212 million. I believe that you have cited a figure of $235 or $236 million.

I expect that we will do somewhat better than the administration has proposed. I am not so sure if we will do as well as you would like us to.

Mr. **Taft**. We appreciate what the committee has done.

Senator **Rudman**. We have generally been supportive, at least.

Mr. **Taft**. There is no question about it, you have been very sympathetic, and we always appreciate the chance to come up and present our views.

Senator **Rudman**. It was good to see you. Thank you.

ADVISORY COMMITTEE ON OVERSEAS COOPERATIVE DEVELOPMENT

STATEMENT OF VERN MOORE, SENIOR VICE PRESIDENT, LAND O'LAKES, CHAIRMAN, ADVISORY COMMITTEE ON OVERSEAS COOPERATIVE DEVELOPMENT

ACCOMPANIED BY:

JIM BARR, EXECUTIVE VICE PRESIDENT, CREDIT UNION NATIONAL ASSOCIATION

TED WEIHE, EXECUTIVE DIRECTOR ACOCD

ACTIVITIES OF ACOCD

Senator RUDMAN. The next witness will be Vern Moore, the senior vice president of Land O'Lakes, chairman of the Advisory Committee on Overseas Cooperative Development.

Mr. MOORE. Mr. Chairman, I appreciate the opportunity to appear here before the subcommittee. I would like to introduce with me Jim Barr, executive vice president of Credit Union National Association and Ted Weihe, executive director of ACOCD.

We do appreciate the opportunity to be here. ACOCD is composed of 19 senior cooperative leaders from throughout the United States, all sectors of the cooperative community. And I call attention to the last page of our submitted testimony which does list those people and the various areas that they are from.

We are a nongovernmental committee which provides advice and counsel to United States and international development agencies, the executive branch, and Congress on issues concerning cooperative development abroad.

SELF-HELP ASPECT OF PROGRAM

For more than two decades, the U.S. cooperatives and their leaders have believed in and supported foreign economic assistance programs based on humanitarian, moral, and self-interest concerns for helping others help themselves—the self-help aspect through cooperative development.

Cooperatives exist in nearly every country, and we have a long history of encouraging development and growth in these countries. U.S. foreign aid has been instrumental in providing technical assistance to cooperatives—especially for assisting the poor in the developing countries.

U.S. cooperatives support foreign economic assistance programs in several ways. There have been quite a few cooperative development organizations and in fact, I serve as chairman of one of those, Agricultural Cooperative Development International which has a membership of about 40 major agricultural cooperatives, farm credit banks and farmer organizations. We have in our statement a list of organizations.

Through these organizations, the leaders and members give their time and their energy for self-help assistance as well as service to various international organizations such as the International Cooperative Alliance.

Probably more important, our biggest contribution is human resources, people. We send people—often on leave of absence—to serve on short- and long-term assignments overseas as advisers. We also provide orientation and training for foreign cooperative visitors and students to our U.S. cooperative facilities.

I personally visited many of the projects overseas and have participated in U.S. training programs. So, I know that they work.

There is a distinction between cooperative development organizations and the charitable private and voluntary organizations—PVO's. We are nonprofit technical assistance organizations and, in some cases, they are departments and divisions of trade associations. Those organizations or departments were formed over 20 years ago at the urging of the U.S. Government to implement section 11 of the Foreign Assistance Act for encouraging the development of cooperatives in developing countries.

While the cooperatives provide some financial support to cooperative development organizations, we have very limited fund-raising capabilities. We did, however, help found CARE following World War II and provided relief to Europe, and in subsequent years CARE has expanded into economic development programs and has a large portfolio of them now. Many CARE board officers serve as a representative of the U.S. cooperatives, including its present president, Wallace Campbell.

AID-ASSISTANCE PROJECTS

We visibly support foreign economic development in other ways, too. AID-assistance projects are featured in our publications. International presentations are made at our annual and regional meetings describing foreign assistance programs and their importance to American foreign interests. We just completed the Land O'Lakes annual meeting and this was a major topic of the presentation to our membership.

But the selling job is not easy, especially in these hard economic times in rural America. In the case of Land O'Lakes, we had a big loss this year reported, but we still had a lot of member support.

We believe that the U.S. economic assistance program which is carried out through the cooperative organizations is one of the most successful and rather than quote a lot, let me just highlight two, the NRECA program of rural electrification in the Philippines is serving over 2 million rural people.

NRECA no longer has technicians in the Philippines yet friendship and continued exchanges between them and counterparts in the Philippines serve U.S. foreign policy but, more importantly, it cements long-standing people-to-people relationships.

CUNA PROGRAM IN CARIBBEAN AND LATIN AMERICA

Another great success story is the Credit Union National Association [CUNA] program in the Caribbean and Latin America to help create a credit union system that serves over 2½ million people with assets of over $800 million. It has an outstanding record. It certainly does much to improve their members' economic well-being.

Most of our cooperative development programs are funded in AID's agricultural and rural development functional account. Less than $12 million is spent annually in the U.S. cooperative assistance programs overseas. We believe this funding level should be increased. I believe the results warrant an increase of cooperative development assistance. Self-help programs are a good bargain.

The present AID Administrator, Peter McPherson, is a friend of cooperative development, he has a farm background. He knows cooperatives. As a Peace Corps volunteer he worked on a CUNA project in Peru. However, a bureaucracy moves slowly.

It would be helpful if this committee, as they have in the past, mentions its strong support for the U.S. cooperative programs in the bill report language.

MULTILATERAL DEVELOPMENT PROGRAMS

To talk about multilateral development programs, we would like to make a few comments. Most of our funds come from AID but some of the cooperative development organizations have World Bank and United Nations programs. We believe that the U.S. co-op organizations could be better utilized by multilateral institutions for implementing sound cooperative development programs. Many World Bank projects have cooperative components, however, these projects experience two difficulties.

First, insufficient provision for institution building. We believe that U.S. cooperative development organizations can provide technical assistance to those programs to improve their success rate. This is our strength.

Second, the World Bank and multilateral programs tend to exhibit heavy host government involvement. This can be expected because of the nature of the loans.

PROGRAMS IN INTER-AMERICAN DEVELOPMENT BANK

Several years ago—with congressional support—we were successful in establishing with the U.S. Government, or urging them to establish, the small projects program in the Inter-American Development Bank. It provides assistance, direct assistance, to cooperatives and other grassroots programs, with host government approval. Our U.S. cooperatives have participated in this program. In our opinion this is a better strategy for cooperative development in terms of creating economically sustainable and nongovernment cooperatives.

In a similar vein, we think that the International Fund for Agricultural Development [IFAD] whose projects are directed to small farmers and their cooperatives could more fully explore such a nongovernmental approach to cooperative development.

I conclude. Multilateral development agencies could better utilize the technical services of U.S. cooperatives. The committee may want to consider, may want to raise these issues in its report language or in discussion with U.S. representatives to our multilateral institutions.

In summary, I would like to say that cooperative leaders, cooperative organizations, have a proven record of supporting U.S. foreign assistance programs. We believe the results warrant continued and greater emphasis and funding in this area.

Thank you.

[The prepared statement of Vern Moore follows:]

PREPARED STATEMENT OF VERN MOORE

CHAIRMAN

ADVISORY COMMITTEE ON OVERSEAS COOPERATIVE DEVELOPMENT

Mr. Chairman and Members of the Subcommittee:

The Advisory Committee on Overseas Cooperative Development appreciates this opportunity to present its views on foreign economic assistance programs. I am Vern Moore, Senior Vice President of Land O'Lakes and Chairman of the Advisory Committee on Overseas Cooperative Development. ACOCD is composed of 19 senior cooperative leaders from throughout the United States and from all sectors of the cooperative community. ACOCD is a non-governmental committee which provides advice and counsel to U. S. and international development agencies, the Executive Branch and Congress on issues concerning cooperative development abroad.

For more than two decades, U. S. cooperatives and their leaders have supported foreign economic assistance programs. Our support is founded on humanitarian, moral and self-interest concerns for helping others help themselves through cooperative development. Cooperatives exist in nearly every country. They have a long history of encouraging cooperative development and growth in other countries. U. S. foreign aid has been instrumental in providing technical assistance to cooperatives -- especially for assisting the poor in developing countries.

U. S. cooperatives support foreign economic assistance programs in several ways. We have created cooperative development organizations and, in fact, I also serve as chairman of one of these organizations -- Agricultural Cooperative Development International. ACDI has a membership of 40 major agricultural cooperatives, farm credit banks and national farmer organizations. We also support the international programs of the following organizations:

Cooperative Housing Foundation, Cooperative League of the

U. S. A., Credit Union National Association, World Council of Credit Unions, National Rural Electric Cooperative Association and Volunteer Development Corps. In addition, several U. S. cooperative insurance companies, including CUNA Mutual, League Insurance and Nationwide, have active programs in Latin America. Land O'Lakes International Corp. and Farmland World are new efforts by the two largest U. S. agricultural cooperatives to directly provide technical assistance, joint investment, trade and barter with cooperatives in developing countries.

Through these organizations, U. S. cooperative leaders and members donate their time and energy, as well as service to various international organizations such as the International Cooperative Alliance. Our greatest contribution is human resources. We send cooperative personnel -- often on leave of absence -- to serve as short and long term advisors overseas. We provide orientation and training for foreign cooperative visitors and students to our U. S. cooperative facilities and offices.

There is a distinction between cooperative development organizations and charitable private and voluntary organizations (PVOs). We are non-profit technical assistance organizations and, in some cases, international offices or departments of national trade associations. These organizations or departments were formed over 20 years ago at the urging of the U. S. Government to implement Section 111 of the Foreign Assistance Act for encouraging the development of cooperatives in developing countries.

While U. S. cooperatives provide some financial support to cooperative development organizations, we have limited fund-raising capability. In fact, U. S. cooperatives founded CARE - Cooperative for American Relief Everywhere - for the purpose of fund-raising to provide relief to Europe after World War II. In subsequent years, CARE has expanded into economic development programs and, currently, has a large portfolio of cooperative development projects. Many CARE Board officers serve a representatives of U. S. cooperatives, including its current president, Wallace Campbell. We promote the giving to CARE among our cooperative members.

We support foreign economic development in other ways, too. AID-assisted projects are featured in our publications. International presentations are made at our annual and regional meetings describing foreign assistance programs and their importance to American foreign interests. However, the selling job is not easy to our membership, especially in these hard economic times when many U. S. cooperatives in rural America are in deep financial trouble.

We believe U. S. economic assistance programs carried out through cooperative development organizations are among the most successful in U. S. foreign aid history. I could mention major successes by each of our organization, but I will cite two. The National Rural Electric Cooperative Association has helped create over a hundred rural electric cooperatives in the Philippines serving over two million rural people. These cooperatives provide light to households and generate economic productivity in rural areas. NRECA no longer has technicians in the Philippines, yet, the friendship and continued exchanges between NRECA and counterparts in the Philippines serve U. S. foreign policy well and, more importantly, cement longstanding people-to-people relationships between our countries.

Another great success story is the Credit Union National Association programs in the Caribbean and Latin America. CUNA has helped create a credit union system there which serves over two and a half million people with assets of over $800 million. These credit unions make a difference in their members' economic well-being. They afford the opportunity to save and borrow for productive endeavors, housing, education and other purposes.

Most of our cooperative development programs are funded in AID's Agricultural and Rural Development Functional Account. Less than $12 million is spent by AID in U. S. cooperative assisted projects overseas. We believe this funding level should be increased.

Let me hasten to say that AID Administrator Peter McPherson is a friend of cooperative development. He grew up on a farm understanding the value of cooperatives to economic growth in his hometown. As a Peace Corps Volunteer, he also worked on a CUNA project in Peru. However, it would be helpful if the Committee, as they have in the past, mentioned its strong support for our U. S. cooperative programs in bill report language.

Turning to multilateral development programs, I would like to make a few comments. For the most part, our funds come from AID, though, some of the cooperative development organizations have worked on World Bank and United Nations programs. We believe that U. S. cooperative organizations could be better utilized by multilateral institutions for implementing sound cooperative development programs. Many World Bank projects have cooperative components. For example, about half of the World Bank's agriculture and rural development projects involve cooperatives. However, these projects experience two difficulties.

First, there is insufficient provision for institution-building. There is a lack of adequate organizational, managerial and technical assistance as well as analysis of the cooperative sector in host countries where projects are initiated. For these reasons, World Bank and other multilateral development programs have a less than satisfactory cooperative performance. We believe U. S. cooperative development organizations could provide technical assistance to these programs to improve their success rate.

Second, World Bank and multilateral programs tend to exhibit excessive host government interference and control over cooperative structures. This can be expected since loans are provided to governments who design and implement the cooperative projects. Several years ago, with congressional support, we were successful in urging the U. S. Government to support the establishment of a small projects program in the Inter-American Development Bank. It provides direct assistance to cooperatives and other grassroots programs, with host government approval. U. S. cooperatives have participated in this small projects program. In our opinion, this is a better strategy for cooperative development in terms of creating economically sustainable and non-parastatal cooperatives.

In a similar vein, we believe that the International Fund for Agricultural Development -- whose projects are directed to small farmers and their cooperatives -- could more fully explore such a non-governmental approach to cooperative development.

In conclusion, multilateral development agencies could better utilize the technical services of U. S. cooperatives. The Committee may want to raise these issues in its report language or in discussions with U. S. representatives to our multilateral institutions.

Thank you. I will answer any questions you may have.

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League Insurance Companies
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O. Roy Wiebe
CENEX
Seattle, Washington

BUDGET REQUEST

Senator RUDMAN. We thank you very much. I understand that your organization provides a great number of the most important experts around the world to help in these programs. Of course, that is most noteworthy.

The request this year is for $725 million, the current level is $700 million. I would be surprised if the subcommittee put in less money than you requested. I cannot tell you what it might be beyond that.

Thank you for being here, and thank you for the excellent work you are doing.

Mr. MOORE. Thank you very much.

AMERICAN LEBANESE LEAGUE

STATEMENT OF ROBERT BASIL, CHAIRMAN, POLICY COMMITTEE, AMERICAN LEBANESE LEAGUE

IMPORTANCE OF LEBANON TO U.S. MIDEAST POLICY

Senator RUDMAN. The next witness before the subcommittee is Mr. Robert Basil, the chairman of the Policy Committee of the American Lebanese League.

Mr. Basil.

Mr. BASIL. Thank you, Mr. Chairman.

I would like to submit my statement for the record.

Senator RUDMAN. Without objection, it will be printed in the record.

Mr. BASIL. Today I would like to discuss briefly the importance of Lebanon to the United States and the major U.S. policy and foreign aid actions that should be considered to achieve U.S. strategic and regional objectives, and to support justice and freedom for the Lebanese nation and people. Policy action and foreign aid must go together, otherwise foreign aid will not be effective.

First of all, permit me to state the profound thanks of the American Lebanese League [ALL] and the American Lebanese community to the Reagan administration and the Congress for recently adopting the policy we in ALL have been proclaiming almost alone in this capital for the last 5 years; namely:

First, to solve the Lebanese problem immediately rather than have Lebanon held hostage to the eventual solution of the Palestinian problem.

Senator RUDMAN. I wonder if you might speak up just a bit or possibly speak directly into the microphone.

Mr. BASIL. Second, withdraw all foreign forces from Lebanon immediately.

Third, establish a strong, sovereign Lebanese Government, duly constituted, with authority over all the territory and people of Lebanon.

Fourth, approve foreign aid programs for a buildup of the Army, major reconstruction of the country, and rehabilitation of the thousands of physically and psychologically damaged men, women, and children.

As President Gemayel stated to the United Nations, "Lebanon has suffered enough."

Over the last 7 years, 110,000 killed, 200,000 wounded, 400,000 displaced, 37,000 orphaned children. One out of every four Lebanese men, women, and children have either been killed, wounded, or displaced.

Lebanon today is important far beyond its size and natural resources because it represents a unique and intense concentration of problems and opportunities facing the United States both regionally and strategically.

The four major problem areas the United States hopes to solve by the removal of all foreign forces from Lebanon still largely remain, due in the delay in negotiations of the last several months.

First, Soviet penetration of the region. The major Soviet regional client, Syria, remains in Lebanon. The alarming buildup of Soviet advisers and advanced weapons in Syria over the past few months presents a new danger of Soviet-Syrian intransigence to withdraw and, more importantly, of the Soviets directly involved in decisions and actions in the region unilaterally.

In a statement this past week Secretary of Defense Weinberger declared that this buildup, especially the deployment and Soviet-manning of SA-5's, demonstrates that Syria is, "just another outpost of the Soviet empire."

Second, international terrorism. This plague has been significantly reduced because the training camps and infrastructure are now gone from Lebanon. However, the threat is still posed by continuing armed elements of the PLO under Syrian Army protection.

Third, strengthening the peace process. The United States hoped to reduce the Syrian-Libyan-PLO influence and increase moderate Arab influence. Moderate Arab governments still have considerable difficulty asserting control of Arab World policies as long as Syria and the PLO remain in Lebanon and reinforce the Rejectionist Front.

Fourth, regional stability affecting access to oil. The Lebanese flash point is more dangerous today than ever before, with hostile armed forces facing each other in grim proximity. Unless fully withdrawn, these forces could again collide, likely this time with strategic implications between the United States and the Soviet Union.

Lebanon is now going through the most critical phase of its life. After 7 years of brutal and degrading occupation, Lebanon has the opportunity to be reborn, but that opportunity is fleeting. The next weeks will determine whether Lebanon will divest itself of all foreign occupation forces—Syria, PLO and Israel—or whether the occupiers will settle in for the long term by dismembering and feasting on a wounded nation, with the tacit approval of all the regional powers.

It is clear that all the nations of the region have motives in Lebanon that may not be in Lebanon's or the United States' interest, and therefore that a direct United States-Lebanon relationship should be established, both to realize United States goals within Lebanon and to the extent the Lebanese situation impacts United States goals in the region.

As President Gemayel stated to President Reagan during his visit in November, "America's commitment to the sovereignty and territorial integrity of a free, democratic Lebanon has been fundamental to our suvival. The historic United States-Lebanon relationship is the cornerstone of building this new Lebanon."

FOUR AREAS VITAL TO UNITED STATES ROLES IN LEBANON

The U.S. role is vital in four areas: First, withdrawal negotiations; second, multinational forces; third, Lebanese army buildup; fourth, reconstruction.

Briefly on each area. In the withdrawal negotiations, some Arab and Israeli actions link negotiations on troop withdrawal to other issues to the detriment of real progress. Therefore, we feel it is in the interests of the United States and of Lebanon to unlink withdrawal negotiations from both the Reagan plan and full normalization.

Multinational force; if an early withdrawal of Syrian, PLO, and Israeli forces is accomplished, increased United States participation in an expanded force will be required temporarily. We are gratified to note Secretary Weinberger's support of this requirement.

The third point, the buildup of the Lebanese Army.

The most essential element in sustaining Lebanese sovereignty and control over its territory is strong, competent armed forces. It has a twofold mission, internal security and external deterrence. Total concentration is on the first mission right now, and we are pretty gratified by the buildup of personnel, equipment, and training to the four-brigade level which the Pentagon is pushing for and which FMS now supports. I believe the equipment is now being delivered.

However, we feel a certain essential capability needs to be added, particularly to sustain full internal security throughout the country because of the difficult terrain. It is very, very hilly country, one of the most mountainous countries in the world. So, we feel that air mobility, better armored vehicles and tanks, modern command and control and communications systems, and especially advanced day-night surveillance systems should be added.

In addition, it is unrealistic to expect Lebanon to sustain stability without building up deterrence capability against external threats. Lebanon must, like Sweden, Switzerland, and other small countries, have sufficient capability to inflict unacceptable losses on a much stronger neighboring state in order to deter many levels of conflict that would otherwise be attractive to a potential aggressor.

We feel this includes improved armor, surface-based air defense, and other kinds of systems. Therefore, we urge that $150 million per year for 4 years of FMS credits be authorized for these essential objectives.

I would like to note that these costs would be partially offset by earlier withdrawal of the U.S. participation in the multinational force.

Reconstruction; in the long run, peace is sustained through stability whose essential element is a sound economy. The present one-shot 1983 supplemental request is grossly inadequate and out of touch with reality.

The cost for reconstruction estimated by Lebanon is about $15 billion. There is a fundamental disconnect between this sum and the planned United States aid package, between the importance the United States attachés to a stable Lebanon and the degree of financial support planned. The United States appears to be trying to obtain $15 billion worth of commitment and influence with $200 to $300 million worth of investment.

ARAB FUNDING OF RECONSTRUCTION

The Arab world. We feel it is unrealistic to expect them to shoulder most of the reconstruction aid as the State Department now proposes because they really have met hardly any of their commitments toward helping other nations in the Arab world. They promised as early as 1979 to give $2 billion to Lebanon and hardly anything has been forthcoming. They have a $10 billion fund for poor Arab nations, and they have not spent, as nearly as we can determine, a penny of that in the last several years.

The Iran-Iraq war is draining their assets, and with lower OPEC prices and unprecedented budget deficits, we just think that is an unrealistic approach.

But I think the most important point we would like to make is that a strong argument can be made that it is not in the United States interest to expect the wealthy Arab states to be a major source of reconstruction funds for Lebanon when these funds are linked with political demands because the present administration approach that the wealthy Arab countries fund Lebanon reconstruction presumes that Arab and United States objectives are identical—which they are not. That presumption is inaccurate.

Arab requirements are that Lebanon regress from their present position to one that is more hostile to Israel, while the United States desires broad movement toward peace under the Reagan Peace Plan. So, the United States policy should have reconstruction aid dependent upon Lebanon adopting United States goals, not upon Lebanon adopting Arab goals that do not support United States policy.

However, Arab funding could be the major source for reconstruction if unattached to political conditions. The basis could be, for example, as reparations to Lebanon since Arab funding formed the basis for Syrian and PLO military personnel and material used to devastate much of Lebanon for 7 years. The government estimate for reconstruction as a result of those 7 years in the early part of 1982 was about $12 billion, at that time.

Therefore, we urge a 5-year U.S. aid program to include budget support, financing of reconstruction and development projects, and military support. The program should be in the form of concessional aids and grants, as was done in the case with Jordan and is still the case with Israel and Egypt.

The aid package should be at the level of $1 billion for fiscal year 1983–85 and gradually decrease thereafter as public revenues and economic activities increase. We predict firmly that after 5 years Lebanon will never again need financial help, would never need another dime. It would be more than self-supporting and would be a strong contributory economic ally to the United States.

Mr. Chairman, a strong, sovereign pro-United States Lebanon is the keystone of administration plans in the region. Failure to achieve and sustain this Lebanon would be a major setback to United States interests. One could well imagine what would happen, what alternatives would exist if we failed in stabilizing and reconstructing Lebanon and having a strong government there. We would literally have no other alternative to preserve U.S. interests.

So, therefore, we strongly urge that a greatly increased aid package, thoughtfully connected to both the well-being of Lebanon and to United States interests in the region, be considered.

Thank you very much, Mr. Chairman.

[The prepared statement of Robert Basil follows:]

PREPARED STATEMENT OF ROBERT A. BASIL

CHAIRMAN

POLICY COMMITTEE OF THE AMERICAN LEBANESE LEAGUE'

Mr. Chariman:

My name is Robert Basil,Policy Chairman of the American Lebanese League, a nationwide non-profit organization founded by American citizens in 1976 to promote United States-Lebanon relationships and to foster the sovereignty, security, democracy and independence of Lebanon within the bounds of the U.S. national interest.

We are not a lobbying organization but an educational, humanitarian and social organization with the broad national membership base representing the philosophy and ideals of the great majority of the two million Americans of Lebanese descent.

Today I would like to discuss briefly the importance of Lebanon to the U.S., and the major U.S. policy and foreign aid actions that should be considered to achieve U.S. strategic and regional objectives, and to support justice and freedom for the Lebanese nation and people. Policy action and foreign aid must go together; otherwise foreign aid will not be effective.

First of all, permit me to state the profound thanks of the American Lebanese League (ALL) to the Reagan Administration and the Congress for recently adopting the policy we in ALL have been proclaiming - almost alone in this capital - for the last 5 years, namely:

1. Solve the Lebanese problem immediately, rather than have Lebanon held hostage to the eventual solution of the Palestian problem.

2. Withdraw all foreign forces from Lebanon immediately.

3. Establish a strong, sovereign Lebanese government,

duly constituted, with authority over all the territory and people of Lebanon.

4. Approve foreign aid programs for build-up of the Army, major reconstruction of the country, and rehabilitation of the thousands of physically and psychologically damaged men, women and children.

Lebanon today is important far beyond its size and natural resources, because it represents a unique and intense concentration of problems and opportunities facing the U.S. regionally and strategically.

The four major problem areas the U.S. hoped to solve by the removal of all foreign forces from Lebanon still largely remain due to the delay in negotiations over the past several months:

1. Soviet Penetration of the Mid-East Region.

The major Soviet regional client, Syria, remains in Lebanon. The alarming build-up of Soviet advisors and advanced weapons in Syria over the past few months presents a new danger of Soviet-Syrian intrasigence to withdraw, and of the Soviets directly involved in decisions and actions in the region. In a statement this week, Secretary of Defense Weinberger declared that this build-up, especially the deployment and Soviet personnel manning of SA-5 missles, demonstrates that Syria is "just another outpost of the Soviet empire."

2. International Terrorism.

This plague has been significantly reduced because the training camps and infrastructure are now gone from Lebanon. However, the threat is still posed by continuing armed elements of the PLO under Syrian Army protection.

3. Strengthening of the Peace Progress.

The U.S. hoped to reduce the Syrian-Libyan-PLO influence and increase moderate Arab influence. Moderate Arab governments still have considerable difficulty asserting control of Arab World Policies as long as Syria and the PLO remain in

Lebanon and reinforce the Rejectionist Front.

4. Regional Stability Affecting Access to Oil.

The Lebanese flash point is more dangerous today than ever before, with hostile armed forces facing each other in grim proximity. Unless fully withdrawn, these forces could again collide, likely with ominous strategic implications, between the U.S. and the Soviet Union.

Lebanon is now going through the most critical phase of its life. After seven years of brutal and degrading occupation, Lebanon now has the opportunity to be re-born. But the opportunity is fleeting. The next weeks will determine whether Lebanon will divest itself of all foreign occupation forces - Syria, PLO, Israel - or whether the occupiers will settle in for the long-term by dismembering and feasting on a wounded nation, with the tacit approval of all regional powers.

It is clear that all nations of the region have motives in Lebanon that may not be in Lebanon's or the U.S.'s interests, and that a direct U.S.-Lebanon relationship should be established, to realize U.S. goals within Lebanon, and to the extent the Lebanese situation impacts U.S. goals in the region.

As President Gemayel stated to President Reagan during his visit several months ago (Attachment A): "America's committment to the sovereignty and territorial integrity of a free, democratic Lebanon has been fundamental to our survival - - - - the historic U.S.-Lebanon relationship is the conerstone of building this new Lebanon."

The U.S. role is vital in four areas:

1. Withdrawal negotiations;
2. Multi-national forces;
3. Lebanese Army build-up;
4. Reconstruction.

Withdrawal Negotiations: Some Arab and Israeli actions link negotiations on troop withdrawal to other issues to the detriment of real progress. These Arabs are linking both political and economic issues to the negotiations, pledging opposition to both the Reagan Peace Plan and reconstruction aid to Lebanon if troop withdrawal negotiations are not to their liking, reflecting the characteristic lack of concern during the past seven years over the brutal occupation of Lebanon. The Israelis are linking full normalization to the negotiations, reflecting an insensitivity to the dangers it unfairly imposes upon President Gemayel in forcing him to go too fast in this direction while Lebanon is pulling itself together.

It is in the interests of the U.S. and Lebanon to unlink withdrawal negotiations from both the Reagan Plan and full normalization. As Dr. Wadie Haddad, President Gemayel's National Affairs Advisor stated in Washington three weeks ago (Attachment B):

"The Lebanese cause is just and true in itself and does not need any other cause, no matter how just or true, to justify it. Regaining Lebanon's freedom is important in itself, just as the solution of the Palestinian problem is important in itself also. Linking the two sequentially may not help either cause. In fact, arbitrary linkage either forces solution of the complex Palestinian issue into the urgent, collapsing the time frame of Lebanon's deterioration under occupation, or forces Lebanon's continued occupation and defacto partition by chaining Lebanon's freedom to the eventual solution of the Palestinian problem. While the two issues are inter-related, the treatment of each of them should have a life of its own in terms of time, conditions and trade-offs."

Multi-National Force: If early withdrawal of Syrian, PLO and Israeli forces is accomplished, increased U.S. participation in an expanded Multi-National Force will be required temporarily while the Lebanese Armed Forces is building up. We are gratified to note Secretary Weinberger's support of this requirement.

Lebanese Army Build-Up: The most essential element in sustaining Lebanese sovereignty and control over its territory is strong, competent Armed Forces. Its mission is two-fold:

internal security, and external deterrence. Total concentration is now on the first mission by rapid build-up to full personnel, equipment and training levels for four brigades, with two additional brigades to be added on. The special supplemental request for 1983 of $100 million in FMS guaranteed loans and $1.0 million in military training aid contributes significantly to this objective. However, certain essential capability needs to be added to that already planned to insure full internal security throughout the difficult terrain in the country, notably heliocopter air mobility, better armored vehicles and tanks, modern command, control and communications systems, and advanced day/night surveillance systems.

In addition, it is unrealistic to expect Lebanon to sustain its stability in this volatile region without building up deterrence capability against external threats. Lebanon must, like Sweden, Switzerland and others, have sufficient capability to inflict unacceptable losses on much stronger neighboring states in order to deter many levels of conflict that would otherwise be attractive to a potential aggressor. This capability includes improved armor, surface - based air defense, gun and missile systems, ground and heliocopter launched anti-tank weapons. Therefore, it is recommended that $150 million per year for four years (FMS credits) be authorized for these objectives. These costs will be considerably offset by the earlier elimination of present U.S. Multi-National Force participation, or possible future re-deployment.

Reconstruction: In the long run, peace is sustained through stability, whose essential element is a sound economy. Lebanon has traditionally had a strong economy, and with proper help can regain it again.

The present one-shot 1983 supplemental request is grossly inadequate and out of touch with reality. The cost for reconstruction of the public infrastructure and the private industries and housing is approximately $15 billon. There is a fundamental disconnect between this sum and the planned U.S. Aid Package, between the importance the U.S. attaches to a stable Lebanon and the degree of financial support planned. The U.S. appears to be trying to obtain $15 billion worth of influence and committment with $200-300 million worth of investment.

It is unrealistic to expect the Arab World to shoulder most of this reconstruction aid burden. Despite repeated past promises, the wealthy Arab nations have not yet delivered any financial aid to Lebanon. In 1979-1980, Lebanon was promised $2 billion - nothing yet. Several years ago, the wealthy Arab nations promised $10 billion aid to poor Arab nations. - nothing yet either. Presently the Iran-Iraq war, which costs Saudi Arabia and the Gulf States $1 billion a month, constitutes a far graver risk to their security than Lebanon. In addition, dramatically lower OPEC oil prices, resulting in unprecedented budget deficits for these countries, all add up to very little hope that Saudi Arabia and the Gulf States will shoulder the bulk of the multi-billion dollar Lebanon reconstruction program.

Most importantly, a strong argument can be made that it is not in the U.S. interest to expect the wealthy Arab states to be the major source of Lebanon reconstruction funds which are linked with political demands. Arab requirements are that Lebanon regress from their present position to one that is more hostile to Israel, while the U.S. desires broad movement toward peace under the Reagan Plan. U.S. policy should have reconstruction aid dependent upon Lebanon adopting U.S. goals, not upon Lebanon adopting Arab goals which do not support U.S. policy.

However, Arab funding could be the major source for reconstruction if unattached to political conditions. The basis could be, presumably, as compensation to Lebanon since Arab funding formed the basis for Syrian and PLO military personnel and material used to devastate much of Lebanon for seven years. Israel also should shoulder its share of the burden for the major destruction caused by its operations.

Therefore, we urge a 5-year U.S. Aid Program, to include budget support, financing of reconstruction/development projects, and military support. The program should be in the form of concessional aids and grants, as was the case with Jordon and is still the case for Egypt and Israel. The U.S. should encourage potential European and Arab investors to provide large-scale concessional aid. The aid package should be at the level of $1 billion for fiscal year 1983-1984, and gradually decrease thereafter as public revenue and economic activities increase. After 5 years, Lebanon will never again need financial help, and should be a strong economic ally of the U.S.

Mr. Chairman, a strong, sovereign, pro-West Lebanon is the keystone of Administration plans in the region. Failure to achieve and sustain this Lebanon would be a major setback to U.S. interests, and would cause costly and agonizing reappraisal. Lebanon and its people have the strength and committment to insure U.S. goals in the region are met, provided the U.S. supports Lebanon to get on its feet again. As President Gemayel so eloquently stated to President Reagan:

"We see the U.S. role as the indispensible ingredient to bring peace not only to Lebanon, but also to the whole region as well. We firmly believe that President Reagan's initiative has created unprecedented opportunities for peace. We, in Lebanon, intend to be active in the search for peace with all nations of the region - - - - Lebanon has been the most recent, and for us the most painful, example of the assault upon free men by the forces of darkness and occupation. We have fought to retain our freedom, and the strength of our resistance has earned for us not only a restated pride in ourselves but also a re-entry into the ranks of the Free World - - - - The historic U.S.-Lebanon relationship is the cornerstone of building this new Lebanon. America's friendship and assistance, not only in peacekeeping and peacemaking but also in reconstruction and rebuilding our armed forces, are vital. We, on our part, intend to carry our share of the responsibility of this partnership by a full and reciprocal contribution to all U.S. goals in its many noble endeavors as the leader of the Free World.)

Thank you, Mr. Chairman

Statement by President Gemayel following the White House meeting With President Reagan, October 19, 1982

Mr. President:

I am honored to be the first President of Lebanon to make an official visit to the United States.

The Lebanese people deeply appreciate and will never forget the your courageous and decisive efforts to help bring an end to the suffering of my country. America's commitment to the sovereignty and territorial integrity of a free, democratic Lebanon has been fundamental to our survival.

We see the U.S. role as the indispensible ingredient to bring peace not only to Lebanon, but also to the whole region as well. We firmly believe that President Reagan's initiative has created unprecedented opportunities for peace. We,in Lebanon, intend to be active in the search for peace with all nations of the region.

The relationship between the United States and Lebanon is not only between our two governments. It is between our two peoples, who share the same heritage and adhere to the same values and principles of democracy and liberty. The two and half million Lebanese have an almost equal number of close relatives in the United States. We value enormously the unique tie provided by these American-Lebanese, among the most loyal of all Americans, and we believe they have a leading role in keeping our two countries together.

Lebanon has been the most recent - and for us the most painful - example of the assault upon free man by the forces of darkness and occupation. We have fought to retain our freedom, and the strength of our resistance has earned for us not only a restated pride in ourselves but also a re-entry into the ranks of the Free World.

With equal resolve, I together with my people, am committed to the immediate removal of all foreign forces from our soil, and to work hand in hand with all sectors of Lebanese society to build a nation in which all citizens have equal privileges, rights and responsibilities.

The historic U.S.-Lebanon relationship is the cornerstone of building this new Lebanon. America's friendship and assistance, not only in peacekeeping and peacemaking, but also in reconstruction and rebuilding our armed forces, are vital. We, on our part, intend to carry our share of the responsibility of this partnership by a full and reciprocal contribution ot all U.S. goals in its many noble endeavors as the leader of the Free World.

STATEMENT

By Dr. Wadi Haddad

National Affairs Advisor to the President of Lebanon

A few short months ago, Lebanon appeared to be at the dawn of a new era of peace and tranquillity after seven years of occupation, death and destruction at the hands of warring foreign armies. With the determination of President Reagan and the efforts of the U.S. administration, foreign forces withdrew from Beirut, and negotiations for total withdrawals from the rest of Lebanon were commenced. Recently, however, Lebanon's initiative for freedom has become bogged down.

The crisis in Lebanon has now reached a critical stage, requiring urgent action in the next days. While other U.S. initiatives around the world, and even in the region, can take months or perhaps a year or two, the Lebanon problem must be solved immediately in order to prevent a catastrophic impact to the interests of Lebanon and the U.S.

As far as Lebanon is concerned, the various foreign armies are inducing instability and violence in the areas under their occupation. If this situation continues for even a short time longer, Lebanon is in serious danger of long-term occupation and defacto partition by the various foreign occupying armies.

Moreover, the impact of foreign occupation is to "disfigure the face of our truth," as Albert Camus wrote of German occupation of France. The physical, psychological and spiritual face of Lebanon is being disfigured by the occupiers, and soon that process will be irreversible.

For the U.S., the juxtaposition of adversary forces occupying Lebanese soil constitutes an extremely unstable and potentially explosive situation which could ignite the entire region, the next time perhaps with strategic confrontation. Moreover, as the time goes by, the credibility of the U.S. and its ability to deliver are questioned, and other powers, notably the Soviet Union, heretofore denied a significant role in the region, will start asserting their authority.

The Lebanese cause is just and true in itself and does not need any other cause, no matter how just or true, to justify it. Regaining Lebanon's freedom is important in itself, just as the solution of the Palestinian problem is important in itself also. Linking the two sequentially may not help either cause. In fact, arbitrary linkage either forces solution of the complex Palestinian issue into the urgent, collapsing time frame of Lebanon's deterioration under occupation, or forces Lebanon's continued occupation and defacto partition by chaining Lebanon's freedom to the eventual solution of the Palestinian problem. While the two issues are inter-related, the treatment of each of them should have a life of its own in terms of time, conditions and trade-offs.

The Lebanese government and people are fully committed to peace, and are prepared to carry their share of the burden toward its achievement. In this process, the Lebanese people are resolved to regain their freedom and sovereignty and re-establish their unified nation. They will accept nothing less. From Tripoli and Baalbeck in the north, to the Chouf in the center, to Sidon in the south, the people of Lebanon are demanding that the Lebanese government and Army regain control of the areas presently occupied by foreign forces who are dedicated to preserving their alien presence by inducing instability in the regions under their control.

To those who question Lebanese unity as a fiction, we challenge them to permit full self-expression, even for a brief period, of Lebanon's democracy and sovereignty, and watch the miracle of free men unfold. To those who question Lebanese resolve, we will continue to resist, and cannot permit, a regional solution which involves the dismemberment or occupation of Lebanon.

The U.S. - Lebanon relationship is fundamental to our survival. We shall continue to work hand in hand with the U.S. to achieve our objectives.

Senator **Rudman**. Mr. Basil, we thank you very much, and we certainly will keep in mind your very good testimony and your excellent statement as we begin our deliberations this year to address our own economic problems as well as our foreign aid appropriations. It will be very useful.

Mr. **Basil**. Thank you very much, Mr. Chairman.

U.S. Committee for UNICEF

STATEMENT OF JAMES SHEFFIELD, PRESIDENT, UNITED STATES COMMITTEE FOR UNICEF

SUPPORT FOR WORLDWIDE CHILDREN'S FUND

Senator **Rudman**. The final witness before the subcommittee today will be Dr. James Sheffield, president of the United States Committee for UNICEF.

Mr. Sheffield.

Mr. **Sheffield**. Thank you, Mr. Chairman.

Senator **Rudman**. Mr. Sheffield, you have a statement here.

Mr. **Sheffield**. Yes.

Senator **Rudman**. The entire statement will be included in the record. If you would like us to do that and you would summarize it for us in the time we have, we would appreciate it.

Mr. **Sheffield**. I will, sir. There are disadvantages to coming last in the alphabet.

Senator **Rudman**. I know. [Laughter.]

Mr. **Sheffield**. Thank you for the opportunity to appear before you again today to comment on the activities of the U.S. Children's Fund in the year since your last hearings.

As you are aware, I am president of the United States Committee for UNICEF, and we are proud to be supported by the perhaps largest volunteer network of about 3 million Americans of any humanitarian cause that we are aware of.

Mr. Chairman, it is no news to any American that these are difficult times. The economic trauma which we Americans have suffered is but a shadow of the tragedy which has been afflicted on hundreds of millions of the world's poorest people. Whenever people suffer, children suffer most.

In human terms, it is mothers and children last into the lifeboats.

Every year, more than 15 million infants and young children die needless deaths from the consequences of poverty and malnutrition. Four children died in the few seconds that it took me to read that one sentence. Hundreds of millions more are disabled or never quite achieve the level of health, strength, mental ability, and potential which might otherwise have been theirs.

As described in UNICEF's recent report, the "State of the World's Children, 1982–83," the world community now has the potential for a health revolution in many countries of Asia, Africa, and Latin America.

STATE OF THE WORLD'S CHILDREN REPORT

The State of the World's Children report details four health techniques in particular and stresses that it is the combination of these new technologies with the tremendous increase in recent years in social organization and capacity to reach people, which provides countries with dramatic new opportunities to act even in these dark times.

I might add that I was delighted to read on the plane coming down today a letter from Kurt Waldheim to the editor of the New York Times, which I will submit along with my comments, in which Mr. Waldheim urges Americans not to forget the important message of that State of the World's Children report.

The most important and dramatic of the low-cost techniques described in the report is the development of a simple oral rehydration home treatment for the world's largest killer of children—diarrhea—which takes a total of 5 million children annually, largely from poor families.

That treatment, a 10-cent packet of sugar and salt mixed with water, replenishes the fluids that a child needs to stay alive long enough for his body to fight the diarrhea virus.

IMMUNIZATION PROGRAM

The second element of children's health revolutions is the increasing feasibility of immunizing all children against measles, diphtheria, tetanus, whooping cough, polio, and tuberculosis. Social breakthroughs in the organization of communities and national systems, as well as technological improvements which make the vaccines more portable, cheaper, and long lasting, have made tremendous advances in universal child immunization possible.

The third low-cost opportunity to achieve significantly accelerated progress in the nutrition and survival of infants is the campaign—led principally by UNICEF, WHO, and many private organizations—to promote breastfeeding, which continues to represent the best food for any baby in any society.

The fourth technique is the use of growth charts by parents for nutritional surveillance to increase their awareness on a regular basis of the child's growth progress and to offer advance warning of often invisible malnutrition.

I have brought an example of a growth chart with me today that was printed in part by AID funding in Haiti, which is an indication of the very simple and dramatic use of such charts to save lives. I will also leave that today with my annexes.

These four simple health therapies are all low-cost, low-resistant health actions which do not depend on economic and political changes for their implementation. They have all been integral elements of UNICEF's basic services approach for quite some time. But they have now each reached a critical mass which makes possible tremendous progress to halving of child death rates at low expense.

TRAGEDY IN LEBANON

Those are the opportunities in the coming year. I would be remiss, Mr. Chairman, if I did not also mention one particular emergency which occupied much of UNICEF's as well as the world's attention in the past year, the tragedy in Lebanon.

UNICEF was the first and best equipped emergency relief operation on the ground in Lebanon when the war broke out last summer. UNICEF staff rushed to Beirut. Food supplies, essential drugs, and equipment were purchased. Additional supplies flown into Damascus were transported by trucks for delivery to the stricken areas.

UNICEF supplied freshwater and repaired and maintained pumps and pipelines.

As the subcommittee knows, the U.S. Government contributed $3,100,000 to UNICEF's initial emergency relief operation and an additional $10 million to UNICEF's subsequent reconstruction and rehabilitation program in Lebanon. These funds were possible due to Congress' quick appropriations work.

This was supplemented by tens of thousands of private contributions by Americans which totaled well over $2,200,000.

Your support for UNICEF and your confidence in its management have been shared by the American people who recognize the United Nations Children's Fund as the foremost international development assistance agency investing in the world's future through its children.

As 132 other nations have moved to contribute their fair share to UNICEF, we must continue to contribute at least our fair share. For fiscal year 1984, that would be at least $52.2 million. Such a contribution from the United States would help the children's fund to maintain its capacity to attack the silent emergency afflicting 1.3 billion children worldwide. A fair-share contribution from the United States sets the benchmark standard, both by percentage and by actual amount, by which other countries judge themselves and determine their contributions.

Such a contribution would also serve the goals which the Reagan administration has established for the U.S. participation in international organizations—as I believe Assistant Secretary of State Newell has articulated—to reassert American leadership and to strengthen U.S. influence.

Finally, a $52.5 million contribution, as modest as it truly is, would reaffirm a very essential element of the American character, that we as a people and as a Nation care.

I would not want to conclude without making two other specific appeals. First, that the Congress also significantly increase the U.S. contribution to the United Nations Development Program [UNDP], an indispensable partner to UNICEF in building the infrastructure in countries which makes possible and applicable the advances which I have discussed—like oral rehydration therapy, growth charts, and universal immunization.

Second, I would hope that Congress would maintain at least the current level of funding for AID's health account which has also in the past contributed substantially to making possible the opportunities which are now available to us to save children's lives. Perhaps, in fact, you would want to specify that a portion of that account should be explicitly applied to children's survival activities like those I have discussed.

Mr. Chairman, these are dark times, but they are not devoid of hope or opportunity. The issue is not, can we save children's lives and build a better, healthier future for them and for all? It is only will we try?

Thank you, Mr. Chairman.

[The prepared statement of James Sheffield follows:]

PREPARED STATEMENT OF DR. JAMES R. SHEFFIELD

PRESIDENT

UNITED NATIONS CHILDREN'S FUND

Thank you, Mr. Chairman, for the opportunity to appear before you again today to comment on the activities of the United Nations Children's Fund (UNICEF) in the year since your last hearings.

As you are aware, I am President of the United States Committee for UNICEF - a national citizens organization which was established in 1947 to inform and educate the American people and our Government on the work of the Children's Fund and the special needs of children worldwide, as well as to raise funds to address those needs. The U.S. Committee is proud to be supported by the perhaps largest volunteer network - 3 million Americans - of any organized cause in the world, not to mention the countless millions more Americans who contribute each year through their direct donations, use of UNICEF greeting cards, Trick or Treating, and participation in fundraising activities like the nationwide premieres of the epic film "Gandhi" which were dedicated to UNICEF.

Mr. Chairman, it is no news to any American that these are difficult times. The economic recession which has meant unemployment, budget constrictions, and unrealized dreams for millions of Americans has not been unique to our country. Indeed, the trauma which we have suffered is but a shadow of the tragedy which has been afflicted on hundreds of millions of the world's poorest people. And whenever people suffer, children suffer most.

In times as these, it is of course not surprising that the assistance which governments are able to extend to the more vulnerable is reduced. The tragedy of that, of course, is that it is in times as these that assistance is most needed. Constrictions in economies and government services not only reduce support to the poor, but also reduce the capacity of the poor to fend for themselves. As the earning power of the poor declines, so does health and nutrition.

There is special tragedy in these circumstances. Too often society concludes that it must restore the viability of its central core - those who are adversely affected by the economy, but are still "within reach" of viability - by abandoning those who are beyond that immediate reach. In human terms, and in the real terms of how this happens, it is "mothers and children last" into the lifeboats.

The tragedy in this, which must invariably return to haunt us for years and generations to come, is that in abandoning poor mothers and poor children, society not only condemns far too many children to death, but also condemns itself to a cruel and costly cycle of weakness, ill-health, and permanent disability for too many more children who will suffer, but not die, from the malnutrition and diseases which are the fate of the abandoned poor.

The irony in this, of course, is that the cost of sustaining the most vulnerable, even in dark times, is so minute in comparison to the grotesque long-term costs of the burden which disabled, weak or ill people, and their succeeding generations borne in ill-health, represent to society.

Mr. Chairman, every year more than 15 million infants and young children die needless deaths from the consequences of poverty and malnutrition. Four children died in the brief eight seconds it took me to read that sentence. Several hundred million more are disabled, and hundreds millions more never quite achieve the level of health, strength, mental ability, and potential which might otherwise have been theirs had they had sufficient and proper nutrition, sanitation, early childhood stimulation, education, and medical care in their formative infant and childhood years.

To challenge this shattering toll, and to make maximum use of the limited resources available in these difficult economic times, UNICEF, in conjunction with the World Health Organization, is now focusing attention on a series of low-cost - politically as well as financially - child-protecting techniques which are particularly beneficial for low-income families and could soon be saving the lives of 20,000 children every day if the world wanted it.

Mr. Chairman, I call your attention, and that of the Subcommittee, to UNICEF's third, and surely most important, annual report on The State of the World's Children. Indeed, I think it would be very useful if the text of the report, The State of the World's Children, 1982-1983, could be included in the Subcommittee's report on this hearing.

Released in December, this Report provided the basis for one of the most powerfully hopeful news stories of the decade. It has been widely commended by world leaders, including the United Nations Secretary-General, the British, French, Indian, Sri Lankan, Philippine, and Swedish Prime Ministers, and scores of other health, medical, childrens, and government authorities, as well as media and civic leaders.

The story it tells, in brief, is that the world community, building in large part on earlier work supported by UNICEF, WHO, the World Bank and International Development Association, UNDP, the U.S. Agency for International Development, and other multilateral and bilateral assistance agencies and non-governmental organizations, now has the potential for a health "revolution" in many countries of Asia, Africa, and Latin America that is as momentous for children in the decade ahead as was the Green Revolution for increasing grain production in many countries in Asia in the decade from the late 1960s.

The report reflects the recognition that recent developments in social and biological sciences present a new opportunity for bringing about a child health revolution which is low in cost and can be achieved in a relatively short span of years. A serious commitment to it by governments and people could reduce disabilities and deaths among children in most developing countries by at least half before the end of this century - and in many countries, within a decade - as well as slowing population growth. The State of the World's Children report details four techniques in particular, and stresses that it is the combination of new technologies with the tremendous increase in recent years in social organization and capacity to reach people - as exemplified by the expansion of primary health care, health auxiliaries, women's groups, literacy among the poor, tranistor radios and other communications mechanisms - which provides countries with dramatic new opportunities to act even in these darkening times.

The most important and dramatic of the low-cost techniques is the development of a simple oral rehydration home treatment for the world's largest killer of children - diarrhoea - which takes a toll of 5 million children annually from largely poor families. Described as "potenially the most important medical advance of this century" by Britain's Lancet (one of the world's leading medical journals), this remedy - costing less than 10 cents to make - remains virtually unknown in hundreds of millions of households which need it most. (It is not yet used or promoted in the majority of the world's hospitals and clinics which still rely on relatively expensive intravenous treatment requiring the use of health facilities not readily accessible to the majority of families in need of treatment. The lives of millions of children could be saved each year, and the health of many millions more improved significantly, if nations were to effectively promote its use and availability through health systems, mass media, educational channels, industry, labor and religious groups, and with active support by national leaders.)

The second element of the children's health revolutions is the increasing feasibility of immunizing all children against measles, diphtheria, tetanus, whooping cough, poliomyelitis, and tuberculosis. Together these six diseases kill an estimated additional 5 million children a year. The need to administer repeated booster immunizations requires a well-organized delivery system. Social breakthroughs in the organization of communities and national systems, as well as technological improvements which have reduced the heat sensitivity of vaccines, making them more portable, with a longer life and cheaper, make tremendous advances in universal child immunization possible.

The third low-cost opportunity to significantly accelerate progress in the nutrition and survival of infants is the campaign - led principally by UNICEF, WHO, and many private organizations - to promote breastfeeding, which continues to represent the best food for any baby in any society. Breastfeeding is the one technique available to almost all mothers to avoid infant health problems. Its advantages include nutrition, hygiene, immunological qualities, and non-cost.

The fourth technique is the use of cardboard growth charts by parents for nutritional surveillance to increase their awareness, on a regular basis, of the child's growth progress, and to offer warning of often invisible malnutrition. (Growth charts kept by mothers in their own homes are a stimulus and guide to the proper feeding of the pre-school child. Consistent under-nutrition, successive infections, and bouts of diarrhoeal disease can all hold back a child's growth over weeks and months in a subtle way that may pass unnoticed by the parent. But it will not pass unnoticed by the chart.)

These four simple health therapies - oral rehydration, universal child immunization, the promotion of breastfeeding, and the mass use of child growth charts - are all low-cost, low-resistance health actions which do not depend on economic and political changes for their implementation. They have all been integral elements of UNICEF's basic services approach for quite some time, but they have each - combined with the social and communications advances which I noted ealier - now reached a "critical mass" which makes possible tremendous progress - the halving of child death rates - at minor expense.

Mr. Chairman, as you are well aware, UNICEF's framework for cooperation with developing countries is, and remains, community-oriented basic services for children, including, inter alia, primary health care (PHC), nutrition, water and sanitation, and basic education (especially primary education and education of women). In the present climate of inertia resulting in large part from the global economic crisis, a critical problem is how to accelerate the process of creating and extending these services, a process requiring national (and international) political commitment, community involvement, the identification of priority child problems and needs, and the application of existing cost-effective technologies to meet those needs. By focusing on a few actions which countries, backed by UNICEF and other sources of external support, can take now to accelerate the survival, health and development of children, the techniques which UNICEF has outlined in its State of the World's Children report can help to stimulate the whole process of creating and extending basic services.

UNICEF does not propose that any of these techniques be activated as a separate ("vertical") program. In the first place, this is not feasible (e.g., growth charts are relevant only where fairly comprehensive mother and child health/PHC services are functioning; and community participation is essential if children are to be reached for immunizations). Secondly, these techniques, while in themselves comprising a set of synergistic actions, can attain their objective of accelerating child health only in the context of a supportive PHC system, including inter-sectoral action. And third, each country must identify its own priority needs and these will certainly go beyond these few techniques (e.g., female literacy, manpower training, essential drugs, and in many countries malaria control).

In initiating the basic services/PHC process, no country can tackle all problems on a nationwide scale all at once. It is necessary to begin selectively. These techniques illustrate one way to start. Where a PHC/basic services system exists, they can strengthen and accelerate its extension. Where PHC/basic services are just beginning, they can serve as a spearhead. In any case, action has to be phased both in scope and in time. UNICEF sees these techniques as a part of a widening and on-going process aimed at meeting children's basic needs for health and development.

The more than 110 developing countries with which UNICEF cooperated in 1982 had a child population (ages 0-15) of approximately 1.3 billion. UNICEF's expenditure on programs in 1982 was the equivalent of only about 23 cents for each of these children. Given the size of these child populations and the magnitude of their needs, UNICEF resources alone will never be sufficient to guarantee the survival and fulfillment of millions of young lives presently threatened by poverty and disease. But we can make a difference for many milllions.

The real test of UNICEF's work is the extent to which it supports and encourages national efforts to improve the situation of children. To do this, UNICEF has developed a strongly country-specific approach to programming based on community participation, use of para-professionals and appropriate technology, and a multi-sectoral approach to addressing needs. UNICEF is also concerned that programs which are developed with the countries need a long-term, rather than a short-term, perspective.

When we speak of UNICEF's work, Mr. Chairman, we often characterize the poverty and lack of services which retards children worldwide as "the silent emergency", because the story of neglected children is so often neglected in public attention, while we call the headline-grabbing disasters "the loud emergencies". We try to reverse those priorities, as is exemplified by The State of the World's Children, 1982-1983, which was probably the most widely covered United Nations story of the recent times. But I would be remiss if I did not also mention one particular loud emergency which occupied much of UNICEF's, as well as the world's, attention in the past year: the tragedy in

Lebanon. UNICEF was the first and best-equipped emergency relief operation on-the-ground in Lebanon when the war broke out, largely because of UNICEF's extensive program of reconstruction and rehabilitation undertaken following the previous conflict. UNICEF's professional staff remained in Beirut and other epicenters of violence to shoulder extraordinary burdens without ever indulging the thought of joining the general exodus. On the contrary, several UNICEF staff members rushed to Beirut from safer points in Damascus and elsewhere to join their colleagues, and UNICEF's Executive Director, James Grant, flew from the Far East to spend several days in Tyre, Sidon and Beirut in the midst of the hostilities to assure arrangements at the highest level to enable UNICEF to help bring some semblance of order in the prevailing chaos. An operations center was immediately established at UNICEF's New York Headquarters to assure complete support for the Lebanon operation and to coordinate activity with the other United Nations and bilateral agencies and non-governmental organizations involved. On the ground in Lebanon, UNICEF displayed even more vividly than usual its widely acclaimed skills of improvisation, flexibility, imagination and organization. Food supplies, essential drugs and equipment were purchased locally to save precious time and lives. Additional supplies flown into Damascus from the UNICEF repository in Copenhagen were transported in trucks obtained with considerable finesse for delivery to the stricken areas while battles raged in the Bekaa Valley and across the Damascus-Beirut highway. UNICEF took over the responsibility of supplying fresh water in improvised tank trucks and, at a critical time, became the virtual Water Department of Beirut, keeping the flow of water going, repairing and maintaining the pumps and pipelines as shells continued to fall.

As the Subcommittee knows, the United States Government contributed $3.1 million to UNICEF's initial emergency relief operation, and an additional $10 million to UNICEF's subsequent reconstruction and rehabilitation program. These funds were possible due to the Congress' quick appropriations work. This was supplemented by tens of thousands of private contributions by Americans totaling more than $2.2 million.

Mr. Chairman, this Subcommittee and the Congress, as you have noted in your successive legislative reports, have consistently supported UNICEF and its essential work for children. You have supported UNICEF particularly because of its unblemished record of efficient, cost-effective, innovative approaches and methods of operation. And your support for UNICEF and your confidence in its management have been shared by the American people, who recognize the United Nations Children's Fund as the foremost international development assistance agency investing in the world's future through its children. It is no accident that more Americans actively work for UNICEF than any other cause, and that millions more support UNICEF through their dimes, their dollars, and their hearts.

Perhaps most importantly, the Congress has supported UNICEF with the consistently leading contribution to the Children's Fund. Although the share of UNICEF's budget contributed by the United States has rightly fallen over the years, from an initial majority in the late 1940s and 1950s, to 50% in 1970, to a current 22%, as 132 other nations have moved to provide their fair share, we must continue to contribute at least our fair share. For Fiscal Year 1984, that would be at least $52.5 million.

Such a contribution, Mr. Chairman, would do four things:

1. $52.5 million from the United States would provide UNICEF with a "fair share" one-fourth of governmental contributions to its General Resources budget, helping the Children's Fund maintain its capacity to attack the silent emergency afflicting 1.3 billion children worldwide, and to be in a position to respond to the all-too-frequent loud emergencies like the Lebanon conflict, an earthquake in Yemen, drought in Northern Africa, or holocaust in Cambodia.

2. A fair share contribution from the United States sets the benchmark standard, both by percentage and by actual amount, by which other countries judge themselves and determine their contributions. Many countries, including Sweden, Norway, Denmark, Canada, the United Kingdom, Italy, the Netherlands, Switzerland, Australia and New Zealand already exceed that standard, based on their share if UNICEF was an assessed-budget agency. Many other countries might respond to United States leadership and could be encouraged to achieve that standard as a minimum if they think well of UNICEF, as the United States did. And other countries - whose names I think you know - would be put further to shame by their distance from their fair share amount, and the contrast between their performance and that of the United States of America.

3. Such a contribution would also serve the goals which the Reagan Administration has established for United States participation in international organizations, as I believe Assistant Secretary of State Newell has articulated to you: to reassert American leadership and to strengthen United States influence, as I note in the annex to my statement which comments on U.S. policy and UNICEF.

4. And finally, a $52.5 million contribution, as modest as it truly is in comparison to trillion dollar debts and hundreds of billion dollar defense budgets, would reaffirm a very essential element of the American character: that we, as a people and as a nation, care. That we will neither neglect or abandon those who are most vulnerable...those who most need help...those for whom dark times are

darkest. I can assure you, Mr. Chairman, that a $52.5 million contribution from the United States, like the work of UNICEF itself and the opportunities for protecting children outlined in UNICEF's State of the World's Children report, would offer real hope in dark times for many millions of poor children.

Finally, Mr. Chairman, I would take the liberty to note again that UNICEF does not work alone. While many of us regard it as one of the "best" development assistance agencies with "none better", in fact, it is but one of many multilateral, bilateral, and non-governmental organizations involved in making life a little more promising for those who have least. And that, of course, is not to mention the very considerable efforts and investments made by the governments of developing countries themselves, for which external development assistance represents merely less than 1% of expenditure.

It is in working with others that UNICEF is able to derive experience and share its own experience. It is in pioneering innovations that UNICEF is able to move on to new challenges while others, better financed and more suited, are able to take on the on-going costs. It is from the research sponsored by others like UNDP and USAID, to name but two, that UNICEF is able to apply advances like oral rehydration salts. It is from partnership or complementarity with the work of other agencies that UNICEF's efforts achieve their greatest effect.

It is in this vein that I would not want to conclude without making two other specific appeals: First, that the Congress also significantly increase the United States contribution to the United Nations Development Programme (UNDP), an indipensable partner to UNICEF in building the infrastructures in countries which makes possible and applicable the advances which I have discussed, like oral rehydration therapy, growth charts, and universal immunization. And second, I would hope that the Congress would maintain at least the current level of funding for AID's Health Account, which has also in the past contributed substantially to making possible the opportunities which are now available to us to save children's lives. Perhaps, in fact, you would want to specify that a portion of that Account should be explicitly applied to "children's survival" activities, like those I have discussed.

Mr. Chairman, these are dark times. But they are not devoid of hope or opportunity. The issue is not can we save children's lives and build a better, healthier future for them and for all? It is only will we try?

United States Committee for
United Nations Children's Fund

A future for every child.

United States Policy Priorities
and the United Nations Children's Fund (UNICEF)

The Reagan Administration has identified five policy priorities to guide its relations with international organizations, as articulated by Gregory J. Newell, the Assistant Secretary of State for International Organization Affairs. The United States Committee for UNICEF is pleased to offer the following comments on UNICEF's performance and its responsiveness to these United States policy priorities:

FIRST PRIORITY: **Reassert American leadership in international organizations.**

UNICEF is one United Nations agency in which the United States has never found itself at odds with the majority of other governments or the secretariat on a major substantive issue. UNICEF remains scrupulously non-political in its Executive Board proceedings and in its operations. Only once in UNICEF's 37-year history has its Board taken a vote on an issue, rather than establishing consensus.

SECOND PRIORITY: **Fiscal responsibility.**

UNICEF has always been committed to a philosophy of "more for less" through innovative, low-cost techniques to assist children and their mothers. This year, the Executive Director of UNICEF is submitting a proposed budget for the fiscal biennium 1984-1985, which extends zero net growth in core professional staff posts since 1982. This zero growth in staff accompanies a projected 29% growth in UNICEF's programme and budgetary expenditure (in real terms) for the same period, 1982-1985.

THIRD PRIORITY: **Strengthen U.S. influence in international conferences through leaner, more disciplined delegations.**

(An internal United States function.)

FOURTH PRIORITY: **Increase the number of U.S. nationals serving in international organizations.**

Already, and traditionally, UNICEF employs a higher percentage of United States citizens than any other United Nations agency. This number, in fact, far exceeds reasonable distribution among UNICEF's donor and recipient countries. In addition, UNICEF has always been headed by an American Executive Director. It should be noted, however, that when the current Executive Director was appointed (taking office in 1980), the U.S. encountered considerable resistance from other donor governments whose per capita contributions far exceeded that of the United States and, in the case of one country (of only 8 million people), the absolute amount of its contribution nearly matched that of the United States (population: 230 million). [For 1982, 1983, and 1984, the Administration has requested massive reductions (up to 37%) in the U.S. contribution to UNICEF; the Congress has instead authorized and appropriated modest increases for 1982 and 1983.]

FIFTH PRIORITY: Increase the role of the private sector in programs and activities of the international organizations.

UNICEF is unique among international organizations as a partnership of governments and peoples working with governments and peoples. Nearly one-quarter of UNICEF's income is contributed by private sector activities, largely organized by private National Committees for UNICEF in 32 industrialized countries, as well as by other non-governmental organizations and private initiatives. UNICEF's program cooperation with governments of developing countries is focused on building parental and community capacity to adequately protect their children and increasing their capacity for self-reliance, and is largely carried out through non-governmental organizations and private sector initiatives. A UNICEF priority is in helping poor families to develop their own income-generating enterprises.

Kimberly Gamble
Washington Representative
United States Committee for UNICEF
110 Maryland Avenue, NE / Washington, DC 20002 / 547-7946

FROM THE NEW YORK TIMES, THURSDAY, MARCH 10, 1983

Children to Whom We Promised Life

To the Editor:

I write in reference to a matter that was the subject of considerable attention in the world's press during the Christmas season — the plight of the world's poor children. At that time, your newspaper, and many others in many countries, prominently featured a report by Unicef which pointed to new hope for saving millions of children who now die needlessly each year.

Anders Wenngren

The message of Unicef's "State of the World's Children" report was clear: Recent developments in low-cost health care technology and in communications and social organization now offer the world community a new and real opportunity to save these children's lives.

The significance of this opportunity is that these lives can now be saved at considerably lower cost than, say, a decade ago. It would therefore seem that we no longer need to ask ourselves whether we can afford to help these children. The question is, How can we not?

What continues to be required in large measure, however, is the willingness to be concerned with implementing these solutions. That is why I write; to remind you and your readers of the New Year's resolutions that may have been made after seeing those Christmas stories of new hope in dark times. The opportunities cited by Unicef continue to hold their promise. Will we hold ours?

KURT WALDHEIM
Washington, Feb. 25, 1983

CONGRESSIONAL SUPPORT OF UNICEF

Senator **Rudman**. Thank you very much, Dr. Sheffield.

I would note that the committee approved $42.5 million last year. As I am sure you know, the request for fiscal year 1984 is $27 million.

As a matter of fact, several days ago, Ambassador Kirkpatrick appeared before our committee, and I asked her why it was that the administration's request was down, particularly since UNICEF is one of the few agencies in the United Nations that is headed by an American, and we tend to have more influence there.

This committee, as you know, and the Chairman, Senator Kasten, have continually been strong supporters of this program.

Mr. **Sheffield**. Yes.

Senator **Rudman**. I would not want to close without just mentioning to you that I think everyone has taken note of the remarkable job that UNICEF did in Lebanon. Without it, obviously, there would have been a great more suffering and more death. You certainly are to be commended for that.

Thank you very much for appearing today.

Mr. **Sheffield**. Thank you very much, Mr. Chairman.

SUBCOMMITTEE RECESS

Senator **Rudman**. The record will remain open for 1 week, during which time additional statements may be inserted for the record from those who were unable to appear in person.

If any of the Senators on the subcommittee require any other information, they will so request it in writing from the witnesses.

Thank you very much for your appearances. We will now stand in recess subject to the call of the chairman.

[Whereupon, at 3:25 p.m., Thursday, March 10, the subcommittee was recessed, to reconvene at the call of the Chair.]

MATERIAL SUBMITTED SUBSEQUENT TO HEARING

[Clerk's note.—The following statements were submitted subsequent to the hearing by public witnesses unable to appear in person:]

INTERNATIONAL DEVELOPMENT INSTITUTE
750 Thirteenth Street, S.E., Washington, D.C. 20003 U.S.A.
Telephone: (202) 547-1727

March 7, 1983

The International Development Institute (IDI) herewith requests a one-time only start-up funding of either a $5 Million matching grant or a $10 Million government loan to develop a trade, research and education center devoted to expand U.S. participation in the world market and devoted to overseas development in the private sector. These funds will be matched with $240 Million of private sector capital over the first five years.

Designed to be self-funding once in operation, the Institute will begin monthly conferences on overseas development this October covering twelve major subjects each year.

Academians, government and industry leaders from the 167 countries will be invited to learn the latest appropriate technology in their field of activity. They will see it demonstrated in full scale applied research projects presented in cooperation with Land Grant Colleges and other research institutions. They will then be able to make their buying decisions with current knowledge on how best to meet their needs at the TRADEXPO - U.S. Trade Center.

A close cooperation with the Agency for International Development is sought and a grant or contract with AID recommended in the Committee's report language would permit IDI to assist private overseas development in those Third World countries where private development is feasible. Thus, the AID budget could be devoted to areas where the political or other constraints on development excludes private sector investment, but where the Humanitarian or Geopolitical factors compel U.S. AID or other government involvement.

The IDI and the TRADEXPO U.S. Trade Center is designed to benefit the whole country and will permit U.S. exporters of goods, services and projects to meet representatives from each of the 167 countries in one convenient location and to negotiate agreements to serve the need of the world market and to reduce dependency by making overseas communities self-sufficient and part of the world economy.

Mr. Chairman and Members of the Committee. I am Dr. Peter Nelsen, an economist and Chairman of the International Development Institute (IDI).

We appreciate this opportunity to submit testimony for the record regarding the FY '84 Appropriation for Foreign Operations.

IDI is a non-profit research and educational institute dedicated to expansion of U.S. exports and the transfer of appropriate technology to improve the quality of life in developed and less developed countries.

IDI was the first organization to register under the new Export Trading Company Act and has developed a system to meet the needs of both U.S. exporters and overseas buyers who desire U.S. products, services and whole development projects and who prefer to fill their needs in the private sector, wherever possible, company to company, instead of company to government to government to company.

Overseas development has in the past been initiated by large multinational companies doing very large projects and on the other end of the scale by AID and the Peace Corps teaching a farmer how to survive on one acre of land.

In between, there is a need and an opportunity for thousands of small to medium scale projects in Third World countries where the local infrastructure or the local population can only support the small to medium scale project, but where such projects would permit the local communities to become self-sufficient and earn the foreign exchange to enter the world market and become trading partners of the United States.

The Senate Small Business Committee last year performed a study of why small business was not entering the export market. An analysis of the 1200 reponses obtained, indicated that 87% of the problems perceived by the companies would be solved by IDI's services if the companies participated in the TRADEXPO export enter that IDI has designed.

The idea came from the Commerce Department where a speaker from their ITA said, "We need a permanent year round trade center where the foreign buyer who comes here can find all the products and services he needs in one place instead of searching all over the country."

This basic idea has been developed over the last six years into an educational center which will present twelve annual seminars on the major aspects of development technology, presenting once a year the latest technology in each category of appropriate technology. Secondly, an applied research center which will test and demonstrate in applied research projects the latest research from the major land grant universities and other research institutions and, thirdly, a trade center where academians, government and industry officials can, after learning the latest information, then seeing it demonstrated, can then purchase the products and services they need with a better knowledge of the opportunities available to meet their needs.

The Congressional Research Service concluded in a report on TRADEXPO on February 15, 1983, that it "would act as a giant magnet, attracting buyers, exporters and potential exporters to Washington.

Users of TRADEXPO could learn about specific products and trade related issues. They could view exhibitions, revive old contacts and initiate new ones."

Located in Washington with appropriate sections thereof in nearby Virginia and Maryland, the center is designed to serve the whole United States so that foreign buyers can come here first and see what they need and then make their travel plans to visit the participating companies throughout the United States.

The greatest benefit will be for project development where an entire set of services can be contracted for in one place from feasibility studies to construction of a complete turnkey project to management and training services and continuing extension services. It will benefit both the customer and subsequent customers by logging the experience and analytical evaluation into IDI's data base information system.

Research and transfer of appropriate technology to improve overseas agricultural production present great opportunities for American enterprises to prosper on a contract or joint venture basis. Moreover, improvement in overseas productivity has historically led to a subsequent increase in the export of U.S. products and services.

For example, when we set up a poultry operation overseas, we create an ongoing market for American feed grains; equipment such as egg hatchers, baby chicks, egg cartons, poultry processing components; and the like. The same scenario applies to many other industries.

The major growth potential for U.S. export lies in Third World markets, where more than 150,000 U.S. companies have export capabilities, but only a small percentage of these companies are able to take advantage of the opportunties. We believe developing this potential through the Institute's trade and development programs would significantly reduce our foreign trade deficit.

We anticipate that 700 acres dedicated to the project at the beginning would soon expand to 3,000 acres, and that within five years we would have 5,000 exhibitors.

TRADEXPO, along with its companion education/conference and applied research centers, is projected to generate 12,000 new jobs in the Institute itself and approximately 30,000 jobs for each billion dollars worth of exports of the companies that it would serve.

IDI is designed to be totally self financing once it is in operation with the space rental revenue funding all the support services and the net revenue funding the educational and research divisions.

We are asking for a one-time-only matching grant of $5 Million, or direct loan of $10 Million, to cover a portion of the start-up costs. Once the program is underway, we will be fully supported by private enterprise and our controlled expansion would be governed by the level of this support.

We are requesting you in your report language, to direct those pertinent agencies with export or development budgets to make these funds available.

We have made three proposals to the Agency for International Development. So far the response has been that AID could not fund a trade center, but the TRADEXPO is only an essential part of the Educational and Research Divisions which are dedicated to provide the services which are within the AID area of activity. Thus, the funding could be directed there. Furthermore, AID did a technology exhibit in Africa which was the same as a trade center and is now planning one for the Philipines.

We find in surveying exporters that it would be far more efficient to bring the people here from the 167 countries rather than having our exporters expend U.S. dollars overseas to try to reach all these markets.

Another response from AID was, "yes, IDI has a highly qualified staff, but since they have never done an AID contract together, we would not get one now." In otherwords, you have to have done one to get another one.

IDI is ~~not~~ intended to compete with AID. We wish to cooperate in every way possible and a one-time appropriation in the form of a contract, a grant or a loan will permit IDI to arrange overseas development services in a large group of third world countries where private initiative development is feasible either on a contractual basis, joint venture basis or as a U.S. investment project.

Thus, AID funds that are now allocated year after year for these countries could either be reduced or reallocated in the "basket case" countries that do not present an economically feasible investment climate for U.S. participation in the private sector, but where the humanitarian and/or geopolitical needs are compelling enough to warrant U.S. assistance.

INTERRELIGIOUS TASKFORCE ON US FOOD POLICY

The Interreligious Taskforce on US Food Policy is a coalition of national Protestant, Roman Catholic, Jewish, and ecumenical agencies which work together in support of morally responsible US food policies at home and abroad. While the Taskforce speaks only for itself, our testimony conforms with the public positions of the major US religious bodies which cooperate in our work.

In our testimony before this subcommittee last year we urged the Congress to sustain the human needs focus in the US foreign aid program and to resist administration pressures to accelerate the shift in US foreign aid toward a more military and political orientation. A shift did occur, although fortunately less than the administration proposed. Congress is now confronted with an FY 1984 request which once again gives priority to military and political concerns and short shrift to long-term human needs development.

If the administration's FY 84 request is granted, the foreign aid program will have grown by $4.5 billion--from $10.438 billion in FY 81 (the final Carter budget) to $14.873 billion in FY 84. But $3.899 billion, the lion's share of the increase, will have gone to security assistance as against a $536 million increase in development aid. The administration, with special help from the Senate will have added $8 in security assistance for every $1 in development aid, shifting the balance in the total program by a full 11 percent. Further damage would be done by agreeing to the administration's supplemental request for FY 1983, which proposes add-ons in security assistance at a ratio of more than 4 to 1 over development assistance.

Because the Taskforce has been a strong supporter of the development and humanitarian portions of the foreign aid bill over the years, we find ourselves increasingly alienated from a foreign aid program which places more and more emphasis on security and gives less and less attention to the needs of the poor. Consequently, we recommend major changes by the Congress in the FY 84 foreign aid request. We urge that the FY 83 supplemental request not be given serious consideration. Not only is it grossly imbalanced in favor of security assistance, but it would appear to violate the committee's request in the Continuing Resolution Conference Report that items rejected in the Continuing Resolution not reappear in a supplemental request.

To assist in reshaping the FY 84 administration request, we offer some specific recommendations relating to Africa, Central America and the Caribbean, and multilateral institutions. In the absence of changes such as these, we believe that the appropriations bill will not command the support it needs to ensure enactment.

AFRICA: A REFOCUS ON DEVELOPMENT

Although the Agency for International Development's Congressional Presentation for FY 84 acknowledges the seriousness of Africa's development needs--especially for improved agricultural production and primary health care--the proposed aid allocations for Africa, as for other regions, give priority to security rather than development concerns. The FY 84 request proposes an increase of a scant $13.6 million in bilateral development aid and the addition of $114.9 million in military assistance and $143 million in Economic Support Fund (ESF) aid.

We recommend reductions in security assistance and transfers to development assistance which would provide a better balanced aid package for the Africa region, focused more on human needs and more equitably distributed, benefiting small and very poor countries as well as the strategically more important countries favored in the administration's FY 84 request. Specifically, we recommend that military assistance and ESF aid be no higher than the levels approved in the FY 83 Continuing Resolution (resulting in a savings of $257.9 million, including $2.8 million in FMS off-budget loan guarantees). We also recommend that of the total savings, $180.03 million be reallocated as development assistance. This would result in net savings of $77.9 million. The following chart capsulizes our recommendations.

Transfers from ESF to sectoral development assistance are proposed because sectoral development assistance permits better targeting than ESF, improving its potential for human-needs development, and yet preserving some of the flexibility to respond to macro-economic needs generally associated with balance of payments types of aid. Reductions are nonetheless proposed for Kenya, Somalia, and Sudan because levels of ESF to those three countries have escalated rapidly since FY 81. There is a danger of providing more funds than can be well spent and of increasing inequity among country allocations in Africa. Even after the proposed reductions Kenya and Somalia will receive an increase of $7 million and Sudan an increase of $30 million over FY 83 levels.

The elimination of the proposed $10 million for Zaire is suggested because of continued reports of pervasive government corruption in Zaire. In those circumstances we feel Zaire should receive neither ESF nor sectoral

RECOMMENDATIONS FOR AFRICA

($ in millions)	FY 84 Request	Taskforce Recommendation	+/-
Military Assistance (Hold to FY 83 levels)	$202.3	$ 87.4	-$114.9
Economic Support Fund (Hold to FY 83 levels)	409.0	266.0	-143.0
Development Assistance (see below)	350.3	530.3	+180.0
TOTAL	$961.6	$883.7	- $77.9

Recommended Transfers:	Cost ($ in millions)
From military aid: restore development assistance to the following countries and region to FY 81 or FY 82 levels--whichever is higher--adding 10 percent for inflation: Benin, Cape Verde, Congo, Djibouti, Gambia, Ghana, Guinea, Guinea-Bissau, Mali, Mauritania, Sierra Leone, Tanzania, Togo, Upper Volta, Sahel Regional	$52.0
From military aid: allocate small increases in development aid to countries facing severe shortfalls in food production (Cape Verde, Mali, Mauritania, Upper Volta, and Zambia) or experiencing a sudden influx of returnees recently forced out of Nigeria (Benin, Ghana, Togo)	15.0
From ESF: transfer $113.0 million of the $143 million reduction in ESF recommended above to sector development assistance to be allocated as proposed in the president's request with the following exceptions: Reduce Kenya from $42 million to $37 million (FY 83=$30 million) Reduce Somalia from $35 million to $30 million (FY 83=$21 million) Reduce Sudan from $120 million to $100 million (FY 83=$70 million) Reduce Zaire from $10 million to $0 (FY 83=$0) Reallocate to Mozambique $10 million for sectoral development assistance	113.0
TOTAL:	$180.0
NET SAVINGS:	$77.9
	($2.8 in off-budget)

development assistance. While not proposing reductions in development assistance for Zaire, we have reservations about the effectiveness of development assistance as well, particularly about the advisability of increasing development assistance to that country by $1 million, as requested, over last year's level of $9 million.

We urge reallocation of the $10 million in ESF proposed for Zaire as sectoral development assistance for Mozambique for several reasons, first and foremost because Mozambique, with a physical quality of life index (PQLI) of 29 and now receiving no US aid, is one of the poorest countries in the world. It is also located in a turbulent part of Africa. It is our view that a more open and conciliatory posture on the part of the US would better serve the long-term interests of both Mozambique and the United States.

CENTRAL AMERICA AND THE CARIBBEAN: REALLOCATIONS TO MULTILATERAL AID

We recommend reductions and reallocations of security and development assistance for FY 84 to Central America and the Caribbean. Such changes will result in an aid package which better addresses the underlying causes of current and potential political instability. Our proposals shift the emphasis from security assistance to development aid which promotes regional integration, directly benefits the poor, and provides humanitarian assistance to refugees.

The administration's FY 84 request follows last year's passage of additional economic aid for the region through the Caribbean Basin Initiative (CBI). Like the CBI, this year's request places heavy emphasis on ESF aid intended to alleviate balance of payments difficulties by promoting export-led economic growth. The administration also continues to seek high levels of military aid for the region, particularly for El Salvador and Honduras. In addition, it is requesting a significant amount of security assistance for Guatemala. These efforts to stimulate political stability and economic development have been and are likely to continue to be counterproductive without a basic reformulation of administration policy toward the region and a corresponding recasting of its foreign aid request. We offer both a general assessment of regional development needs and specific recommendations regarding the FY 84 foreign aid request.

We believe that long-term development in Central America and the Caribbean requires:

--renewed efforts toward a genuine political settlement of the conflicts both within El Salvador and between Central American countries and an end to continued human rights violations;

--regional economic integration that compensates for the small-scale economies and relatively narrow resource bases of many of the countries in the region;

--development strategies that promote regional food self-sufficiency and balance export production with production for local needs; and

--development that benefits directly the poor majority in these countries.

Our specific recommendations regarding the FY 84 legislation would be to hold military aid to FY 83 levels (resulting in a saving of $110 million, including $13.2 million in off-budget loan guarantees), to eliminate all aid other than humanitarian assistance to Guatemala (a saving of $53 million), to condition ESF aid to El Salvador on negotiating an end to the civil strife ($85 million), and to transfer 25 percent of all remaining ESF to development activities (transfer of $59.5 million). This would mean net reductions in security assistance to the region of $314.0 million, net development add-ons of $155.3 million, and net savings below the FY 84 request level of $158.7 million (inclduing $13.2 million in off-budget military aid savings). We would urge additional funds for the Inter-American Foundation, refugees, and several regional and multilateral agencies. The following chart spells out these recommendations in more detail.

MULTILATERAL INSTITUTIONS: A REAFFIRMATION OF SUPPORT

We are critical this year, as last, of the drastic reductions proposed by the administration in US contributions to the development programs of international organizations. We also continue to be disturbed by lagging US contributions to the International Fund for Agricultural Development (IFAD) and the International Development Association (IDA). Taken together, these two kinds of actions suggest a weakening of US will to engage in multilateral development cooperation and an abdication of the US leadership role in multilateral institutions. To pull back from multilateral cooperative efforts would be unfortunate, particularly now, when increased cooperation among nations in international economic and development matters is desperately needed.

Fortunately, last year Congress saw fit to reject the administration's proposed reductions in US contributions to international organizations and programs, increasing them instead from the $215.4 million appropriated in FY 82 to $225.002 million in the FY 83 Continuing Resolution. In spite of this signal of congressional support for these programs, however, the administration is once again proposing reductions, to $189.95 million in FY 84, a cut of 24 percent, with most of the reductions falling in those programs that Congress supported most strongly last year. The UN Children's Fund (UNICEF) would be cut by more than 36 percent, The UN Development Program (UNDP) by 14 percent, and the UN Environment Program (UNEP) by more than 50 percent. The US cash contribution to the World Food Program (WFP) from this account would be eliminated altogether.

We recommend that US contributions to international organizations and programs for FY 84 be increased by $55 million from the administration's request level, to $244.95 million. We suggest the increases be distributed as follows:

RECOMMENDATIONS FOR CENTRAL AMERICA AND THE CARIBBEAN

($ in millions)	FY 84 Request	Taskforce Recommendation	Savings
Make the following reductions:			
Military aid to FY 83 levels	$158.7	$ 57.9	$110.8*
Development aid to FY 83 levels	261.5	245.8	15.7
Military, ESF and development aid to Guatemala	53.0	0	53.0
ESF aid to El Salvador**	120.0	35.0	85.0
ESF aid other than El Salvador and Guatemala by 25%	238.0	178.5	59.5
TOTAL:	$831.2	$517.2	$314.0*

The above reductions would make available $193.2 million in ESF aid, a portion of which could be allocated as follows:

	Cost ($ in millions)
Central American Bank for Economic Integration--for increased food self-sufficiency and improved nutrition	25.0
Caribbean Development Bank--for improvement of agricultural self-sufficiency and intraregional cooperation and trade	45.0
Fund for Special Operations/Inter-American Development Bank	50.0
Small Projects Program/Inter-American Development Bank	15.0
US contribution to UN High Commission for Refugees for Central American refugees	13.0
Increased funding for the Inter-American Foundation	7.3
TOTAL:	$155.0
NET SAVINGS:	$158.7*

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*includes $13.2 million in off-budget loan guarantees.

**to be strictly conditioned on initiation of unconditional dialogue among the parties to the conflict.

RECOMMENDATIONS FOR INTERNATIONAL ORGANIZATIONS AND PROGRAMS

($ in millions)	Increase from FY 84 Request	Taskforce Recommended Level
UNDP	$20	$140
UNICEF	25.5	52.5
UNEP	6	9
WFP	3	3
UNITAR	.5	.5

With respect to IFAD, we recommend that the US contribution for FY 84 be raised from the $50 million requested by the administration to at least $80 million. Initially a strong supporter of IFAD, the US has contributed only $24 million thus far from a pledge of $180 million due by the end of calendar year 1983. A contribution of only $50 million for FY 84 would leave a balance of $106 million still due at the end of the payment period, making likely not just a one-year but probably a two-year stretch-out. On the other hand, were the contribution raised to $80 million in FY 84, the chances would be increased that the final payment, $76 million, could be made in FY 85.

We make this recommendation aware that the Senate Appropriations Foreign Operations Subcommittee has taken a consistently negative position on IFAD, approving no funds in FY 82 and only $10 million in its FY 83 appropriations bill. We are persuaded that the concerns earlier expressed by the subcommittee relating to professional staff size, burden-sharing, and cofinancing have been seriously addressed by IFAD and in good measure met. We therefore urge the subcommittee to reconsider its position on IFAD in the interests of continuing IFAD's programs for small farmers and of moving into serious negotiations on the next replenishment, without further disruption of current operations.

With regard to the multilateral development banks, we recommend the appropriation of the $1.34 billion needed to complete the US contribution to the International Development Association (IDA) sixth replenishment. While $1.34 billion--the total amount requested by the administration in the FY 83 supplemental and the FY 84 request--is a large sum, the failure of Congress to provide it in FY 84 would extend to five years the payment time for a contribution that initially was to be made in three years.

We find it difficult to understand why IDA fails to command broader congressional support. The review of the multilateral development banks undertaken by the Reagan administration shortly after assuming office gave high marks to the multilateral development banks for effectiveness and noted that the soft loan windows, such as IDA, were particularly effective in advancing US humanitarian interests. As the largest single source of concessional finance for the poorest countries, IDA plays a very important role among development institutions, particularly during this period of global economic recession. We believe it deserves more extensive US support.

In summary, these recommendations are an attempt to redress the growing imbalance between development assistance and security assistance in the US foreign aid program by shifting the focus back toward long-term development needs. We believe that without changes along these lines, many in the religious community will not support--and may well actively oppose--the legislation as reported.

PREPARED STATEMENT OF DAVID L. GUYER

PRESIDENT

SAVE THE CHILDREN FEDERATION

Save the Children is pleased to submit this testimony to the Subcommittee on Foreign Operations as part of its consideration of appropriations for U.S. foreign assistance programs for FY 1984.

Save the Children is a private non-profit community development and child assistance agency which has just celebrated its 50th Anniversary. Operating in thirty three countries on five continents, Save the Children self-help programs promote self reliance and improved quality of life for poor people through integrated activities relating to economic productivity, agriculture, health, nutrition and education. While the bulk of Save the Children's funding comes from private charitable contributions, we are proud of our close partnership with the Agency for International Development in implementing community development and disaster assistance programs in many different parts of the world.

I

In examining the President's foreign assistance request for FY 1984 under consideration by this Committee, we are deeply concerned about the apparent shift away from basic human needs oriented development assistance programs. The Congress has regularly and recently reaffirmed the statutory mandate of the 1973 New Directions Legislation emphasizing a basic human needs approach to development as the major component of U.S. foreign assistance policy. We fear that this policy is honored by this Administration more in word than in deed.

Development assistance in general, and the basic human needs approach in particular, must be perceived as what it is -- an important component of U.S. foreign policy aimed at promoting U.S. interests in both the short and long terms. It is not, as some have suggested, a program conceived by "do-gooders" which must be balanced against the legitimate interests of foreign policy. Security and military assistance, including the growing Economic Support Fund programs, should not be seen as the only or best means of promoting U.S. interests overseas. While the Secretary of State, George P. Shultz, has recently called attention to this fact in testimony before this Committee, we believe it bears repeating. We urge the Committee on Appropriations to recommend a balance between security and development assistance which more accurately reflects the critical importance of U.S. development assistance programs.

II

In testimony before this Committee and before the Committee on Foreign Relations, AID Administrator M. Peter McPherson outlined the Administration's plan to promote private sector initiatives in developing countries, including a new revolving fund for private sector activities. We believe that this can be a significant and useful new component of AID's program and we look forward to working with AID staff members in developing and implementing the program.

At the same time, we hope that these new initiatives will not be taken at the expense of other vital parts of the AID program. Of special concern to us is the 30% reduction in funding for health programs. Health programs have proven to be some of the most cost effective and beneficial of all foreign assistance programs. Futher, it is self-evident that the development process requires broad access to health services.

III

In reference to the importance and potential of health oriented assistance programs, we urge the Committee to examine the most recent State of the World's Children issued by James P. Grant, Executive Director of UNICEF. With your permission, we will submit a summary of the report for inclusion at this point in the record:

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THE STATE OF THE WORLD'S CHILDREN
1981-82

James P. Grant
Executive Director of the
United Nations Children's Fund
(UNICEF)

Children in dark times

A year of silent emergency

FAR FROM BEING priceless, a child's life was worth less than $100 in 1981.

Wisely spent on each of the poorest 500 million mothers and young children in the world, such a sum could have bought improved diets and easier pregnancies, elementary education and basic health care, safer sanitation and more water. In other words, it could have brought the basics of life. And at the same time as meeting the most pressing human need in the world today, it could have helped to slow down population growth and accelerate economic growth in the world of tomorrow. In short, meeting the needs of all the world's children was both the greatest of humanitarian challenges and the best of investment opportunities.

In practice, it proved too high a price for the world community to pay. And so, every two seconds of 1981, a child paid that price with its life.

About those 17 million children who died during the year, there is little more to be said. Whoever they once were, whatever religion they were growing up in, whatever language they were beginning to speak, and whatever potential their lives held, they were simply failed by the world into which they were born.

Not ten per cent of them were immunized against the six most common and dangerous diseases of childhood. The cost of so immunizing all of the Third World's infants works out at approximately $5 per child. The cost of not doing so works out at approximately five million deaths a year.

For the children of 1982, the facts of life on earth will not be significantly different. Of the 125 million who will be born, 17 million will again be dead before their fifth birthday. And between 1981 and 1982, although there is no trend so pronounced as to break through the inevitable imprecision of available figures, there is every reason to suggest that times are getting darker for the world's poorest children.

To the extent that this annual decimation of the world's newborn is a reprisal for the failings of economic development, the immediate future holds little hope of a reprieve.

For most oil-importing developing nations, where the vast majority of the poor now live, economic growth has stalled and fallen to its lowest level in a decade. Combined current account deficits have doubled to approximately $80 billion in the two years to 1980; accumulated external debts have passed the $400 billion mark; the rate of growth in output has fallen below four per cent a year; the terms of trade have worsened by 7.5 per cent between 1979 and 1980 alone; and both import and export capacities have been reduced.

Hardest hit are the already poorest nations of Africa and South Asia where some countries are actually facing a reversal of development. It is here that average incomes in the 1980s are unlikely to increase by more than $1 or $2 a year. It is here that most of the world's 'absolute poverty' is to be found. And it is here that over three-quarters of 1981's infant deaths have occurred.

South of the Sahara, 1981 was also the tenth successive year of declining food production per head and a total of 34 nations containing 260 million people are now reporting acute food shortages. Most at risk, as is always the case when malnutrition tightens its grip, are the growing minds and bodies of Africa's children.

Compounding that risk in 1981 has been the unstaunched flow of Africa's refugees and displaced peoples. In a continent of 800 distinct ethnic groups and more than 1,000 different languages, through which insensitive borders run along lines drawn by colonial rulers, there are now over six million refugees – one person in every 75 of Africa's population. And almost half of them are children.

This has been, therefore, another year of 'silent emergency': of 40,000 children quietly dying each day; of 100 million children quietly going to sleep hungry at night; of ten million children quietly becoming disabled in mind or body; of 200 million 6-11 year olds quietly watching other children go to school; of one-fifth of the world's people quietly struggling for life itself. But it has also been a year in which economic trends indicate that progress against such poverty is not only slowing down in many nations, but being thrown into reverse. Only two years ago, the World Bank reported that the total number of people living in absolute poverty was 780 million. Optimistically, said the Bank at that time, that number would fall to 720 million by the end of the 1980s. Pessimistically, it would rise to 800 million during the decade.

Yet a more recent United Nations study has now concluded that 'the world economy is experiencing greater instability and a more severe disruption of steady growth than at any time since the end of the Second World War . . . unless specific steps are taken, the consequence of this adverse external environment will be to increase the numbers of the absolute poor to one billion before the end of the Third Development Decade'.

It was a conclusion accepted by the heads of all United Nations agencies, including the World Bank itself. And, in all probability, it means that, in many countries, more children will die next year than this.

Social goals and the slowing down of progress

Last year, in this report, UNICEF asserted that by the year 2000 the number of infant deaths in low-income countries could be reduced to 50 per 1,000 or less, that average life expectancy could be raied to 60 years or more, and that every child should have at least the four years of primary education necessary to acquire literacy. The report noted that although idealistic in the context of past experience, these goals are realistic in the sense that the principal obstacle standing in the way of their realization is the absence of the will and commitment to achieve them.

In December 1980, those targets (advocated by many organizations in recent years) were incorporated into the International Development Strategy (IDS) for the 1980s and adopted by the General Assembly of the United Nations. 'An important new feature of the strategy', said Mr. Niaz-Naik who chaired the committee which prepared the IDS, 'is that it conceives of development as an integral process, and the objectives of social and human development have been accorded a new emphasis.'

But with the decade just beginning, it is already clear that its principal economic target – a seven per cent a year average rise in the GDP of the developing nations – is unlikely to be met. Unless special measures are taken, therefore, the vision of its social goals is already clouding over.

To reach such goals, progress towards them would in fact have to be two or three times as fast over the next 20 years as it has been over the last 20. But in many nations today, the rate of development as measured by all three of the chosen indicators is already slowing down.

The Third World's infant mortality rate – that sensitive indicator of the well-being of mothers and children – fell by a steady four or five points a year in the 1960s. For the past five years, it has barely flickered. Average life expectancy, which increased by seven or eight months a year in the 1960s and early 1970s, is now increasing by only two or three months a year. School enrolment rates, which again rose by a regular four or five per cent a year up to the mid-1970s, now seems to have reached a plateau.

With the developing world's infant mortality still ten times higher than in the industrialized world, with its life expectancy still 15 years less, and with a third of its 6-11 year olds still out of school, this deceleration of progress cannot be explained by the approach of any natural limits. Rather it is a sign that development itself is in some nations becalmed and in others actually drifting backwards.

In short, the optimism of the 1960s which gave ground to the realism of the 1970s has now receded even further to make room for the doubt and pessimism which seems to be settling into the 1980s. It is a process of disillusionment both aggravated and symbolised by the decline in the share of the rich world's wealth which has been invested in aid. In 1965, when the United Nations first called upon the donor countries to increase the level of their aid to 0.7 per cent of their GNPs, the actual level stood at 0.49 per cent. Today, despite the efforts of a handful of nations who have met that target, the average level rests at 0.37 per cent.

Not in a generation have expectations of world development, and hopes for an end to life – denying mass poverty, been at such a low ebb.

In such a context, to advocate the rapid acceleration of development progress for the world's poorest billion people in order to significantly improve the lives of their children by the end of this century is to invite the charge of naivety.

It is a 'naivety' which UNICEF intends to pursue with the utmost vigour. Working with communities and families to provide for the health and education of their children is not only a matter of justice. It is also a productive investment in the world's economic and social future.

The 'Realism' of meeting children's needs

The realism or naivety of any goal is almost always as much a question of priorities as of possibilities. And it is not the possibility of achieving primary health care and primary education for the great majority of children which is in question. It is its priority.

Such goals could be achieved, for example, for less than the industrialized world spends on alcoholic drinks each year. Similarly, the broader goals of meeting the basic human needs of the overwhelming majority of men, women and children on earth could be realized by devoting as much each year to the task of achieving them as is now devoted every six weeks to the task of maintaining and increasing the world's military capacity.

However uncomfortable such comparisons may be, they are necessary to put into perspective the accusation that the goal of making significant improvements in the lives of the world's children by the end of this century is 'naive', and to put in its place a decision about priorities.

In dark times, children need priority. And while there will always be emotion behind that statement, it is also an appeal to reason.

More specifically, it is an appeal to two reasons – one of which is timeless and one of which is particular to this, the last quarter of the twentieth century.

Ninety per cent of the growth of the human brain and 50 per cent of the growth of the human body occurs in the first five years of the human life. The corresponding susceptibility of those years should alone argue that priority be given – in family affairs and in world affairs – to the needs of the young.

In the acquisition of their needs, and in the defence of their rights, children themselves are relatively powerless. They have neither physical strength, nor economic sanction. They have no unions, and no votes.

Usually it is the parents who are empowered to protect and provide. But if parents are deprived of that power, then the responsibility falls to the community of which the child is part.

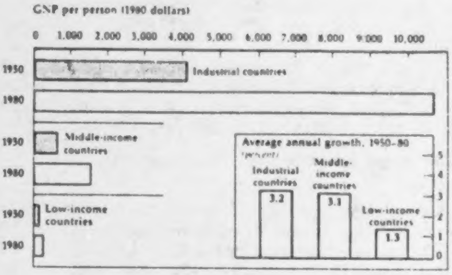
In the very earliest human societies, as Richard Leakey has shown, average life expectancy was probably little more than 20 years and many children were deprived of both their parents before they were of an

Three decades of progress: income, health, education, 1950-80

Income

GNP per person (1980 dollars)	*1950*	*1960*	*1980*
Industrial countries	4,130	5.580	10.660
Middle-income countries	640	820	1.580
Low-income countries	170	180	250

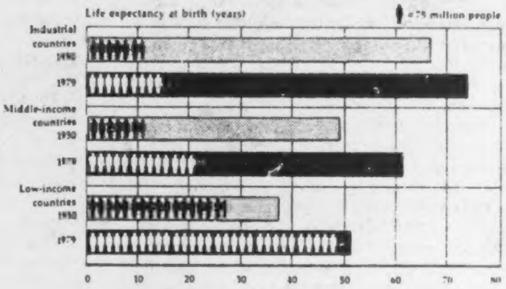
Average annual growth (percent)	*1950-60*	*1960-80*
Industrial countries	3.1	3 3
Middle-income countries	2.5	3.3
Low-income countries	0.6	1.7



Health

Life expectancy at birth (years)

	1950	*1960*	*1979*	*Increase 1950–79*
Industrial countries	67	70	74	7
Middle-income countries	48	53	61	13
Low-income countries	37	42	51	14
Nonmarket countries	60	68	72	12

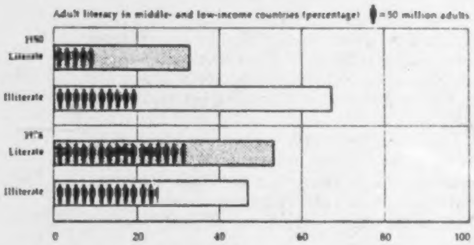


Education

Adult literacy rate (percentage)

	1950	*1960*	*1978*
Industrial countries	95	97	99
Middle-income countries	48	53	72
Low-income countries	22	28	39
Nonmarket countries	97	97	99

Note: All tables exclude China.



Source: World Development Report published for the World Bank by Oxford University Press, New York. Reproduced by kind permission.

age to provide for themselves. The survival of the child, and the continuing survival of the community, therefore depended upon the assumption of that responsibility *by* that community.

However large and complex the community may have grown, that special relationship of responsibility to its children is still an indispensable ethic of civilization. Indeed it is an increasingly relevant ethic as science and technology increasingly invest the earth with the attributes of a global village. And in this century there has been a growing recognition that if a local community is unable to meet the needs of its children then the responsibility extends to the national and international community.

In 'loud' emergencies, such as starvation in Kampuchea, the world community does respond, often magnificently. Indeed the mass starvations in the Ireland of 1846-7 or in the Bengal of 1943 – both of which occurred despite sizeable local food stocks – are much less likely to happen today. But in 'silent' emergencies – the more dispersed and less dramatic toll of hunger and illness and child deaths which add up to a Kampuchea every few weeks – the international response is also more muted. Like an echo of the paradox, the traditional cry of 'women and children first' applies only to such 'loud' emergencies as fire and shipwreck. In the silent emergencies of everyday need, the reality is usually 'women and children last'.

In the 1980s, there are many millions of parents – and especially mothers – whose power to protect and provide for children has been eroded or washed away by unemployment or landlessness, by poverty or by lack of knowledge, by sickness or disability, by oppression or by demoralization. And in exercising its responsibility to those children, the task facing both national and international communities is to find ways of restoring that power to their parents.

The largest generation

This timeless concern is today sharpened to a particular edge by specific changes in the growth and structure of world population.

After a rapid increase in the rate of population growth – caused by relatively sudden successes in controlling certain diseases, epidemics and faminines which meant that more infants survived to have children of their own – fertility rates have now begun to fall in almost every region of the world. The beginning of this decline is as unprecedented as was the surging increase which preceded it. Taken together, both forces now have a special bearing on the state of the world's children.

One effect is that 40 per cent of the developing world's people are under the age of 15 and about to enter their child-bearing years. As birth rates fall, the numbers of children as a proportion of the total population will also fall. But in our time, the Third World's ratio of younger to older – of dependants to providers – is at its height. In Germany or the USSR, for example, there are now two people of working age for every one who is too young or too old to work. In Bangladesh Mexico or Nigeria, the ratio is one to one.

The result is a temporary but powerful extra strain on the Third World's capacity to provide for its children. In education, for example, those of primary school age now amount to 25 per cent of the population. In the industrialized world, the corresponding figure is only 15 per cent.

The decline in fertility which is just beginning to become visible will in time lower that proportion. But meanwhile the capacity of the Third World to provide essential services for the young is stretched to the limit – and beyond – by quantitative pressures on low-income countries which leave little room for the qualitative improvements which are required to improve the well-being of the world's children.

When these internal pressures coincide, as is now happening, with external economic pressures resulting from world-wide recession, then the welfare of the largest generation of children in history is further squeezed.

As nutrition, health, education and the normalcies of childhood are usually preconditions of successful parenthood, it is vital to both this generation and the next that the children of today be protected against the present economic weather.

The welfare of children – and future parents – is not the only issue at stake. For the question of whether or not improvements in the lives of the young are brought about in the 1980s is also crucial to the slowing down of population growth itself.

Acceptance of family planning and a decline in birth rates is closely connected with such changes as the improvement of health care, the decline of infant mortality, and the spread of education (especially for girls). A setback in progress towards these social goals is, therefore, likely to also be a setback in the trend towards lower population growth – so increasing the numbers of children in future generations at the same time as decreasing their parents capacity to provide for them.

Conversely, the stepping-up of national and international efforts to meet such needs would have the opposite effects of both improving life for the children of today, investing in their capacity as the parents of tomorrow, and creating the conditions necessary for a further slow-down in population growth itself. Extrapolating the experience of those developing countries which have lowered death rates, for example, suggests that the very same improvements in human welfare which would be required to meet the International Development Strategy's year 2000 target of reducing infant mortality to 50 per 1000 births or less would also result in 12 to 20 million fewer births each year. History demonstrates that when overall death rates make that first precipitous fall from around 40 per 1000 as a result of eliminating mass famines and epidemics, then the decline in birth rate lags far behind. And in that space between the fall in death rates and the fall in birth rates, the 'population explosion' takes place. But history is equally conclusive that those countries whose death rates stood at around 15 per 1000 in 1960 – which is around the average for low-income countries *today* – have since seen their birth rates fall by several points for every one point fall in the death rate. Colombia's 6 point fall in death rates (from 14 to 8 per 1000) during the first two development decades was answered by a 15 point fall in the birth-rate (from 46 to 31 per 1000). Over the same period, a three-point fall in Jamaica's death rate meant a ten-point fall in birth rates and in South Korea a five point fall in the death rate found echo in a 20 point fall in birth rates.

The commonly held view that reducing infant mortality only stores up more births and more trouble for the future is, therefore, a mistaken one. Meeting basic human needs is not only necessary to prevent human suffering in the present, but also to reduce the growth of population itself, thereby avoiding more human suffering in the future. Whether today's world population of 4.5 billion eventually stabilises at 10-11 billion or 13-14 billion sometime around the end of the next century depends heavily on what happens to birth rates in the last two decades of this century.

Present and future needs, therefore, cry out with one voice. And each decade into that future will see a magnification of either the successes or the failures of the world community's response to the needs of the present times.

This choice between compound failure and compound success is made the more crucial by the numbers involved. We can allow the largest generation of children to grow up malnourished, unhealthy and uneducated in order to become the parents of another generation of malnourished, unhealthy and uneducated children. Or we can accord to our children the priority they deserve by increasing efforts and resources to a maximum, rather than a minimum at this time when such a large proportion of the world is young. Paradoxically, the present sees the future at its most vulnerable.

In sum, bringing about a significant improvement in the lives of children by the end of this century will certainly need a significant increase in the resources available for the task and in the effectiveness with which they are deployed. But it is a question of priorities not possibilities. It is a matter of choice in which both reason and emotion argue for children. And it is a crucial moment at which to decide. For between the vicious and the virtuous spiral, a choice must now be made.

Wanted: more benefits per dollar for children

THE PLEA for priority for children – and for resources – has been made. But if another 'realism' dictates that the resources available nationally and internationally for meeting the needs of children are to remain close to present levels then the only possible response is to seek to increase the ratio between resources and results. Somehow, ways must be found to get more development per dollar.

Learning from experience, better use of available knowledge, wisdom, research, and most important of all, the *will* – these are the qualities which can convert additions to economic resources into multipliers of human benefits. And, in an increasing number of cases, social improvement programmes are coming to be seen not as an inevitable drain on national budgets, nor even as just cost-effective welfare expenditures, but as productive investments in themselves.

In the United States for example, it has been shown that for every $1 which government invests in rehabilitation for the disabled, $9 comes back in taxes paid by disabled people who get jobs as a result.

In Egypt, the ten-year campaign to control the water-borne disease known as schistosomiasis is likely to save a multiple of the investment in curative costs and lost productivity.

In Venezuela, the government has estimated that its scheme to bring water and sanitation to large areas of the country will pay for itself five times over within a decade.

In New York, a recent study has concluded that an investment of $2.7 million a year to improve pre-natal care for low-income women could save between $10 million and $12 million a year in high-cost intensive care for premature babies – not including the savings in lifelong support for children born with mental or physical disabilities.

Internationally, the successful campaign to eradicate smallpox, to which the U.S.A. contributed $50 million, is already saving the United States more than double that amount each year in immunization, quarantine and surveillance costs.

In 1981, the ratification of the WHO/UNICEF 'International Code of Marketing of Breastmilk Substitutes' by the World Health Assembly represents one of the greatest opportunities of recent times to effect a change which would combine improvements in human life with reductions in economic costs. The improvement for infants can be illustrated in a single fact – because of the nutritional and immunological properties of mother's milk, those who are breastfed for less than six months, or not at all, are five to ten times more likely to die in the second six months of life than those who are breastfed for more than six months. But for a Third World currently spending $1 billion a year on infant formula products, and for low-income families spending $3.50 out of a weekly wage of $15 to buy it for their children, the switch from the promotion of bottlefeeding to the promotion of breastfeeding could also mean a very significant economic saving.

The scope for such combinations of social progress and economic gain is clearly far from exhausted. It cannot make economic sense for one third of all children's hospital beds in the developing world to be occupied by children suffering from cheaply preventable diarrhoeal diseases. It is neither socially nor economically acceptable to have 500,000 children a year being affected by poliomyelitis when 20,000 shots of vaccine cost less than $1,000. Nor is it either humane or sensible to have allowed over 500 children to lose their eyesight every day during 1981 when Vitamin A tablets costing only a few cents could have prevented it.

Meeting the most basic needs of the majority of the world's children is a less direct and self-contained task than these examples imply. But in the wider arenas of nutrition, health care and education, ways have to be found of using human wit and wisdom as much as money itself in bringing about improvements in the lives of the world's children.

Such breakthroughs rarely happen by accident. They happen by an interaction between the experience of the past, the opportunities of the present, and increased priority to the needs of children and low-income families. It is that interaction which UNICEF seeks to catalyse. And it is to that experience, and to those opportunities that this report now turns.

Recruiting an army of paraprofessionals

In the task of providing basic services to meet the greatest needs of the greatest numbers, past experience suggests that an army of paraprofessional development workers – backed by more specialized government services and stimulating the people's own involvement in the creation of those services – is probably the only way forward for the 1980s.

From one point of view, the use of paraprofessionals is an economic necessity. To train, equip and install a fully qualified medical doctor in every Third World community (even if such doctors were prepared to serve there, which the majority are not) is an impossibility for the foreseeable future.

From another point of view, the use of paraprofessionals is also more appropriate. The essential requirements of 'health for all' as set out by the World Health Organization, for example, are: 'adequate food and housing, with protection of houses against insects and rodents; water adequate to permit cleanliness and safe drinking; suitable waste disposal; services for the provision of ante-natal, natal and post-natal care (including family planning); infant and childhood care, including nutritional support; immunization against the major infectious diseases of childhood; prevention and control of locally endemic diseases; elementary care of all age groups for injury and diseases; and easy access to sound and useful information on prevailing health problems, and the methods of preventing and controlling them.'

The appropriate response to such health needs is not to devote available resources exclusively to the training of more doctors to cure disease. It is a combination of social and economic development plus the training of literally millions of primary health care workers or community development workers who can advise on nutrition, water, hygiene and waste disposal; provide maternal and child health care, promote breastfeeding and advise on family planning; organize immunization campaigns; work with the people towards preventative public health; deal with common local illnesses and injuries; and refer more serious cases to more qualified people.

From yet another point of view, the use of paraprofessionals is also a virtue. Even in the industrialised world there is today a growing disillusionment with the over professionalization of social services. Sweden, for example, is now requiring two out of every five new doctors to commit themselves to primary health care and general practice. And in Finland the proportion of the national health budget allocated to hospitals has fallen from 55 per cent to 43 per cent while the proportion spent on primary health care centres – governed by locally elected health boards – has increased from 11 per cent to 24 per cent. In the Netherlands, which has achieved one of the lowest infant mortality rates in the world, the great majority of babies are delivered at home and attended by mid-wives at a fraction of the cost of births in most industrialized countries.

In the Third World, paraprofessionals chosen for training by and from the communities which they will serve are likely to be more knowledgeable about local skills and resources, more sensitive to local culture and tradition, and more at home with, and acceptable to, those whom they will serve.

In this way, paraprofessional development workers can blur the alienating distinction between experts and people and help to involve rather than exclude the poor from the process of change.

Participation: the foundations of development

If the potential importance of paraprofessional development workers is one of the 'legs' of a strategy of 'more development per dollar', then the concept of people's participation is the other. Indeed without the organized participation of the poor, no community development project has more than the dimmest hope of lasting success. If, amid the scattered hopes of a failed development project, there were a little 'black box' to record what had gone wrong, it would almost always turn out to be the case that, somewhere on the way, the people for whose benefit the project was intended had found better things to do with their time.

That is why 'people's participation' is currently the most popular phrase in the dictionary of development. And although it sometimes seems that the concept is only kept aloft by the hot air of rhetoric, it too has partly arisen because of financial necessity.

Probably only through community participation can progress in public hygiene, water supply, and safe sanitation be made and maintained on the scale required to bring about significant improvements in the quality of life.

In Malawi, for example, piped water today flows in a water-scarce region for 150,000 villagers who themselves dug the trenches, laid the pipes, and built the concrete aprons and constructed the soak-away pits. Through their involvement in the construction of the system, costs were kept down to $3 per person served – a small fraction of the normal construction costs – and the maintenance of the system is both more competent and more likely.

In practice, participation in the process of change is probably the exception rather than the rule. But where it is to be found, its virtues are always to be seen.

As the 1981 World Development Report from the World Bank points out, for example: 'The quality of life for the bulk of the Chinese people is strikingly better than in most low-income countries.' Looking at what lies behind this achievement, the Bank concludes that 'every level of society from the production team to the commune to the national level plays a role in providing social services. Production Brigades may finance the training of one or more "barefoot" doctors, who provide primary health care and often participate in the Brigade's work as well. State subventions pay for some of the programme, but participating groups also provide support, and participate in decisions concerning them.'

Of equal importance is individual participation. A mother who knows the benefits of breastfeeding or of boiling contaminated water before drinking, for example, greatly reduces the need for subsequent and costly curative measures.

But the necessity of people's participation can sometimes obscure the fact that being involved in the decisions and processes which affect one's own life is an end as well as a means and that people's participation therefore has a double valency with the development process. As Denis Goulet has observed: 'Development is not a cluster of benefits "given" to people in need but rather a process by which a populace acquires greater mastery over its own destiny.'

This virtue, as distinct from the necessity, of participation is, again, increasingly being rediscovered in the industrialized world itself. Whether it be through self-help preventative health, or the growing of natural foods, or sweat-equity housing, or home-energy saving, an even larger number of people are becoming re-involved in the process of meeting more of their own and their family's needs.

And as this process of re-involvement gets under way, that same combination of financial and human gains which is so crucial to progress of the developing nations, is beginning to show itself in the industrialized world.

On the food front, for example, American citizens saved $14 billion in 1977 by growing vegetables rather than buying them. For the average gardener, that meant a saving of $375 a year in addition to the benefits of more exercise and better food. In health, the University of California's Self-Care Programme for diabetics has halved the incidence of diabetic emergencies over two years whilst saving $1.7 million in hospital and patient fees.

Paraprofessionals and people's participation therefore represent virtue as well as necessity. But as an approach to development, there are those who accuse it of making the former out of the latter.

It might, for example, be said that primary health care workers are merely the lowest and cheapest rung in a 'delivery system' directed from the top downwards and designed to provide a second-class service to the poor in order to contain the problem of poverty and so avoid change in the society of which that poverty is a part.

In some instances, this is undoubtedly true. It is still the case that, across the Third World as a whole, 80 per cent of health budgets are being spent on doctors and hospitals for the urban few whilst primary health care workers are packed off to look after the rural many. In such cases, the concept of people's participation, similarly, is usually just a fancy name for making the poor responsible for their poverty.

In other cases, the pattern of paraprofessionals and people's participation in the provision of basic services is seen not as an end but as a beginning, not as a minimum service but as the maximum which can be achieved at any particular time and at any particular place, not as a separate health service for the poor but a means by which the existing health services – including doctors and hospitals – can be geared to the needs of the poor. And however loosely the term 'barefoot doctor' is nowadays used, China's primary health care workers gain significantly in both credibility and effectiveness through being able to refer the poorest child in a rural commune up through a system which can lead to the most sophisticated clinic in Beijing if that is the appropriate level of treatment for his or her complaint.

The training, referral, and support services implied in this re-gearing of health services to serve the majority, should alone dispel any notion that primary health care is a low quality solution. To bring basic health services to every community in the poor world – even by the most appropriate and efficient methods possible – will mean a very significant increase in the resources available for the improvement of human health. Such an increase in 'human capital' would almost certainly pay large dividends in economic growth and development (a health scheme for workers in Indonesia, for example, was seen to raise productivity within eight weeks) but from the point of view of human health alone the efficiency of the primary health care concept resides not in any absolute lowering of the cost but in ways of using additions in resources to produce multiplication in benefits. And without doubt, basing community development strategies on participation and paraprofessionalism will lead to more development per dollar.

Synergisms: making one plus one equal three

One of the most obvious lessons of the development effort is that prevention is almost always more cost-effective than cure. And concern for the prevention of illness means that primary health care is inseparable from such issues as agriculture, housing, sanitation, water supply, education, female emancipation, or the questions of work and wages which are the basis of an adequate diet and a healthy people. The best trained and best supported primary health care workers therefore cannot help but become community development workers. And it is this wider scope of the community development worker which offers another major opportunity for increasing the effectiveness with which available resources are applied.

Poverty, like a self-sharpening knife, finds the means of making each of its disadvantages reinforce the other. A disease like measles, for example, can carry a 50-50 risk of death if contracted by a child who is also malnourished. But the converse is also true. And almost all improvements in the well-being of a community will tend to compound each other's benefits.

Immunization programmes, for example, both strengthen and are strengthened by the other elements of basic health care. 'Simple and low-cost services act synergistically to break the vicious cycle of malnutrition and infection,' says Dr. Ralph Henderson, Director of WHO's Expanded Programme of Immunization, 'and the success of any one service in reducing morbidity and mortality is expected to help to convince the community of the worth of all the other services.'

Of particular importance in the International Drinking Water Supply and Sanitation Decade (1981-90) is the synergistic relationship between clean water and health education. Water may be clean when it is brought to the surface by the new handpump, for example, but if it gushes into a bucket lined with germs, or if the cloth placed on top of the bucket to prevent water from spilling out on the way home is brown with filtered dirt, or if the water is stored for hours in an open jar near the door, then its benefits are likely to be reduced by the time it is used. Counting the number of wells drilled or standpipes installed, is, in such circumstances, only superficially satisfying. And time might be better spent contemplating the shift of, say, ten per cent of the investment in water supply to a corresponding programme of health education designed to extract maximum benefit from that investment.

A cat's cradle of such synergisms links almost every aspect of development: female literacy catalyses family planning programmes; less frequent pregnancies improves maternal and child health; improved health makes the most of pre-school or primary education; education can increase incomes and agricultural productivity; better incomes or better food reduces infant mortality; fewer child deaths tend to lead to fewer births; smaller families improve maternal health; healthy mothers have healthier babies; healthier babies demand more attention; stimulation helps mental growth; more alert children do better at school . . . and so it continues in an endless pattern of either mutually reinforcing or mutually retarding relationships which can minimize or multiply the benefits of any given input.

For such synergisms to work positively, and so increase the ratio between results and resources, the integration of services is obviously necessary. And that brings us right back to the broad range of the primary health or community development worker's concerns.

Far from the village, separate government departments for agriculture, health, education and employment may make their separate services available. But the community development worker living with the problem of underdevelopment at village or community level has no temptation to see nutrition, health, education and poverty as separate issues – and every opportunity to feel the pulse of those inter-relationships which can convert 'inputs' into the beginnings of development. A recent study of six major international development projects has noted: 'Integration is usually achieved more easily at the lower echelons of the hierarchy than at the top'.

Linking what science knows to what people need

In devising ways to extract more 'development per dollar', science has made many breakthroughs in both increasing effectiveness and reducing costs of the technologies involved in fighting poverty. And its failure to fulfill its promise is not so much a failure of science itself, but of social organisation, a failure poignantly identified in R.F. Fendall's epitaph on Twentieth century medicine: 'Brilliant in its scientific breakthroughs, ingenious in its technological invention, and woefully inept in its application to those most in need.'

Nowhere is that gap between what science knows and what people need more tragically evident than in the estimated five million young lives claimed each year by diarrhoeal disease.

Repeated bouts of diarrhoea drain life-sustaining fluids and salts out of the body. Prevention depends upon a combination of nutrition, food hygiene, water supply and sanitation. But as all of these are several years if not decades away from the poor majority, an effective curative treatment is necessary if millions of lives are to be saved in the meantime.

In the 1960s, the 'cure' was rehydration fluid administered through an intravenous drip by trained medical staff in hospitals or clinics. In other words, it was a cure 'woefully inadequate in its application to those most in need.'

Since the early 1970s, there has been another way. In laboratories in India, Bangladesh and the United States, a rehydration treatment has been devised which costs only a few cents, is based on easily available salts and sugar, is made up in the home by mixing with boiled water, and is administered by mouth rather than by intravenous drip.

Tested under 'worst possible conditions' in emergency camps, the new treatment cut child deaths from diarrhoeal disease by 90 per cent. 'Very few should die if treatment can start early and, preferably, at home,' says Dr. Dhiman Barua, WHO Medical Officer for the Diarrhoeal Diseases Programme.

In the million villages of the Third World, doctors are not going to be at hand to begin treatment 'early and at home'. Primary health care workers could be.

The aim of WHO and UNICEF is to make oral rehydration treatment available before 1983 to at least a quarter of all children under five who are affected by diarrhoeal disease. Scientists can devise the correct formula of salts; doctors, hospitals and clinics can run training courses and hold stocks; but only tens of thousands of primary health care workers can make the technique available to individual parents as and when they and their children need it.

In the organization of immunization coverage which requires three injections for each infant and two for each mother, in the weight checking of pregnant women and newborn babies which is the most sensitive indicator of either their well-being or their need for help, in the early detection of disability which is crucial to either prevention or reduction of its impact on the normal life of the child, it is the on-the-spot presence of people trained in basic health knowledge and backed by specialized services which can extract the maximum human benefits from scientific investment by making its breakthroughs less 'woefully inept' in their application to those most in need.

Beyond the theory

Such a summary of what primary health care can do inevitably elides its complexities into too smooth an outline. 'To build a workable and affordable health care system which will serve the great majority of needy families' says a recent analysis of the Lampang Project in Thailand 'is a considerably more complicated, time-consuming and expensive undertaking than is generally realized by those who have not actually tried.'

'Nevertheless,' the report concludes, 'it has to be done because this is undoubtedly the most effective and feasible way – probably the *only* way – to meet the crucial and long-neglected basic health needs of the people.'

That is why primary health care is no longer an untempered theory but an idea going into action, in all its various permutations, across the developing world.

In Africa, Botswana is training one 'family welfare educator' for each village; Ethiopia is retraining 28,000 traditional birth attendants and community health workers; Malawi is trying out a 12-week primary health care course across one of its regions; Somalia has trained 1,800 community health workers and plans to have two for every village by 1985; the Sudan has trained over 1,000 community health workers for settled communities and 176 for nomadic groups; Zimbabwe is building on its 1,000 former military paramedics in order to create nation-wide primary health care; Niger has trained 560 community health workers with specific emphasis on reducing gastro-enteric diseases in Iwo State; in Senegal, Benin, the Congo, Niger and Upper Volta, the idea of 'health for all through primary health care' – as propounded by WHO and UNICEF at the Alma Ata Conference in 1978 – is now being tested against the realities of the continent's problems.

In Asia, India has already trained 100,000 community health workers and retrained 150,000 traditional birth attendants in its attempt to provide one primary health care worker for each of its 580,000 villages; Bangladesh is training one community health worker for every 1,000 people in six test areas; Indonesia is experimenting with the training of '*prokesas*' (voluntary health workers) chosen by each block of 30 families; Thailand has already trained 11,000 village health workers and 112,000 'village health communicators' who now serve 25 per cent of its population; Nepal plans to extend primary health care to all 27,000 communities; Vietnam's community development workers, selected and paid for by their own communities, are now backed by 8,500 health centres across the country; and in China, the original 'barefoot doctors', backed by an increasingly sophisticated medical service, are providing the appropriate level of care – from bandages to brain surgery – for almost a billion people at a cost of less than $7 per person per year.

In the Americas, the primary health care approach of Cuba and Costa Rica have achieved infant mortality rates among the lowest in the Third World; Nicaragua is now training 2,000 community health workers and health volunteers and making oral rehydration treatment locally available to more than 100,000 children; in Jamaica, Colombia, Ecuador, and Panama, primary health care experiments have been launched.

And in the Democratic Republic of the Yemen, Saleh Hamshali, a newly trained health guide, has today been called away from the orchard where he earns his living. He has been sent for by a mother who has become desperate about her one-year-old daughter. The child has had diarrhoea for two days and is obviously failing. As Saleh hurries from the fields he passes by many of the men and women who elected him, a few months ago, to be trained as their health guide. Some of them are burning garbage as he approaches the edge of the village.

Within a minute or two, he arrives at the child's home and stoops through the stone doorway. The girl is lying on a mattress on the floor. Immediately he asks for boiled water to be brought and unslings the satchel from his shoulder. Tearing open a foil sachet of what he knows as 'UNICEF Salts' he mixes the powder with four Coke bottles full of water. The mother looks on anxiously as Saleh carefully transfers the liquid from one clean bowl to another to make sure that the salts are fully dissolved. Spluttering, the child drinks the fluid from a clean tin mug. She will certainly live. Two years ago, Saleh's own one-year-old daughter exhibited the same symptoms. Her grave is a small mound of sandstone rocks on a hill just outside the village. At that time, Saleh did not have his three weeks training nor ten cents worth of salts.

Investing in children – social justice and economic sense

AT THE community level, paraprofessionals and people involvement are the most important ways in which the 1980s can extract more development per dollar and improve the lives of the world's children even within the financial constraints of the years to come. But implemented in isolation from changes in national and international priorities, they are unlikely to fulfill more than a fraction of their potential or to be the beginning of the end for absolute poverty. For a broader and ever more powerful synergism also exists between improvements in health, nutrition, education, and improvements in social and economic development – in productivity by and for the poor majority.

But as the budget of the Third World's governments – and the aid flows they are likely to receive from the industrialized world – are also severely affected by world recession, ways must also be found at the national and international level of making every dollar go further.

Basic needs and a new economics

Again, the lessons of the development effort in recent years point to one outstanding way in which this might be done. In summary, that lesson is that the creation of productive employment opportunities by and for the poor, and of social services designed to meet their needs, will not only alleviate poverty now but will actually help to accelerate economic growth itself.

The implicit proposal – a direct rather than indirect attack on absolute poverty through the provision of services and employment opportunities designed to meet the needs of the poor majority – ran counter to contemporary economic wisdom. Such approaches it was said were inefficient and would lead to decreases in investment and to a slowing down of the very growth which made the expansion of such services possible.

But as the 1960s became the '70s, it was clear that the persistence of poverty represented not only a continuing human tragedy but also an undermining of the process of growth itself.

Labour is as important as capital in the process of increased production. And a malnourished, unhealthy and illiterate population was therefore a serious constraint on productivity. From this point of view, social services which build up 'human capital' are not consumption but investment. Humanitarian concern thereby acquired economic respectability. Says former World Bank President Robert McNamara: 'Human development – education and training, better helath and nutrition, and fertility reduction – are shown to be important not only in alleviating poverty directly but also in increasing the incomes of the poor and GNP growth as well.'

In agriculture – on which approximately three-quarters of the Third World's people depend for their livelihood – the advantages of redistributing land in order to invest in the smaller farmers and the poorer households has now proved itself in many developing nations where the smaller farmers have effective access to credit, markets, technology, education and health facilities. In general, the larger the farm, the less intensively it is cultivated, the less labour it uses, and the less per acre it produces. After land reform in Taiwan, for example, average yields per acre rose by 80 per cent. And in South Korea, one of the reasons behind its increased agricultural productivity is that between 1945 and 1965 the percentage of rural households who worked on land which they themselves owned rose from 14 per cent to 70 per cent. Such landholdings, as in Taiwan and Japan, averaged only one hectare in size. And in all of these cases, the numbers of agricultural workers per 100 acres rose sharply as did the number of days worked by each person – thereby increasing their incomes and their ability to feed, educate and otherwise care for their children. We have only recently begun to recognise that the difference in agricultural productivity between different countries and regions is not primarily a question of their cultural background, although that has some impact, but of the organisation of their agriculture and of whether or not farmers have incentives and access to support systems. 'The outstanding success of the 1970s has probably been the improved productivity of small farmers,' says the 1981 World Development Report. 'Their extra output has been the key to impressive growth in such countries as India, Indonesia, and Malaysia'.

Greater attention to the allocation of assets, services and opportunities for poorer households and small producers can increase the efficiency with which resources are used. It can help to meet needs now. It can help to increase productivity. It can help to ensure that the benefits of that increased productivity accrue to the majority. And, for the reasons discussed elsewhere in this report, it can help to slow down the rate of population growth and thereby assist development in the future as well as in the present.

In theory, then, the approach of trying to meet basic needs – for food, health-care, education and jobs – represents increased value for development expenditure.

In practice, comparisons across different developing countries also show that economic growth in those countries with high life expectancy and literacy rates grew faster in the 1960s and '70s than those where health and education services lagged behind. Many of those countries and regions which achieved sustained per capita growth in GNP of 6% or more during the 1960s and 1970s – such as Japan, Singapore, Taiwan, Hong Kong, Romania or South Korea – made a greater than usual effort, and with greater than usual effectiveness, to advance the well-being of low-income families and their children. Sri Lanka, long chastised by conventional economists for its profligate 'consumption' through social services in the 1950s, was seen to be succeeding in bringing about lower infant mortality, longer average life expectancy, higher literacy, and lower birth rates than either India or Bangladesh whilst at the same time seeing its economy grow more quickly than its neighbours.

In 30 developing countries surveyed by the World Bank, primary education was found to be the most productive investment opportunity available – able, in time, to yield a hard economic return of approximately 24 per cent. In the same study, the productivity of farmers with four years of primary education was found to be 13 per cent higher than that of farmers who had never attended school (where the necessary farm inputs were available in both cases).

China, South Korea, Taiwan, all gave their evidence that investing in people through services designed to reduce poverty could reinforce rather than detract from the process of growth itself over a time-span of a decade or more. And in all of these cases, the International Development Strategy's social goals of reducing, in all countries, infant mortality to 50 per 1,000 or less, increasing average life expectancy to 60 or more, and reaching a literacy rate of at least 75 per cent, have been achieved at a level of GNP per head which is well within the range of all developing countries by the year 2000. And in all, the PQLI (Physical Quality of Life Index*) rating is well above the average for middle-income countries which have per capita incomes several times higher than a China, a Kerala, or a Sri Lanka.

The potential of such 'human development' strategies for increasing the efficiency of the development process – and hence for achieving a significant improvement in the lives of children even within the economic restraints of the late twentieth century – has therefore been demonstrated in both theory and practice.

Political will and changing priorities

Almost all of these ways of achieving more benefits for children and mothers per dollar – whether they be broad strategies of switching emphasis to human development or more detailed plans to build 50 health centres rather than one hospital – require changes in priorities. And such changes are not easy in view of established interests in existing patterns.

For they are strategies which contribute to and depend upon the greater priority to low-income families implied by a 'basic needs first' approach to development.

All of the policies designed to meet such needs – switching the emphasis from universities to primary schools, from hospitals to primary health care, from cities to rural areas, from large estates to small farms are policies which bring more benefits to the children of the poor and can, at the same time, accelerate a nation's economic growth. It is not, in most cases, a question of dismantling hospitals, it is a case of reharnessing hospitals and doctors to the needs of the majority – often through the provision of training, referral and back up services to primary health care workers.

But while there can be little doubt that switching priority to the majority of children and mothers renders more efficient the process of using available resources to improve the quality of life, such decisions are ultimately political.

The political will required to invest in the poor majority is perhaps the scarcest resource of all in the struggle for world development.

There can be no artificial substitutes for that will to create or to permit the efficiency of greater equity. But it is a process which the industrial world can facilitate by changes in the terms of trade and levels of aid which could help to increase the resources available to the nations of the developing world for financing projects whose main beneficiaries are the poor and the powerless. International broadening of economic opportunity can therefore reinforce the same process within nations.

But the political will required to do so seems just as scarce. The attempts to create that will – through special sessions of the United Nations General Assembly, through the meetings of the United Nations Conference on Trade and Development, through the North-South talks in Paris, through the Brandt Commission and over the summits of Ottawa, Melbourne and Cancun – have been hinged partly on moral arguments and partly on the idea that the transfer of resources to the developing south is also a method of regenerating the economies of the industrialized north. Such a strategy echoes, at the international level, the 'new economics' of the basic needs approach to development in its suggestion that investing in the productivity of the poor perhaps could be as good for the world economy as investing in the productivity of poor communities could be good for national economies.

In practice, however, trade policies which restrict the developing world earnings – and aid policies which direct more than 50 per cent of official development assistance to the wealthier developing countries – put a brake on progress towards improving the lives of the world's children.

Technology and social organization

The 'equity factor' is therefore important at both national and international levels in determining how much development can be derived from each available dollar. But at the local or community level, that same equity factor has to be one of the key considerations in projecting the efficiency with which any development project involves and benefits the poor. Otherwise a well-drilling programme which begins as an attempt to improve the health of the poor can end as little more than a subsidy to the landowner; the launch of a new highly-yielding crop variety which begins as an effort to increase nutrition can end by increasing the size of farms and the numbers of the landless; the introduction of a tractor which begins as an attempt to enable larger acreages to be ploughed can end as onerous extra hours in the fields for the women who do the weeding and the gleaning.

At every level of the development process, such choices have to be faced. To move forward in the belief that money and technology can work independently of social relationships is to repeat a formula which has been tried and failed. Technical solutions can be, and often are, brilliant solutions to a part of the problem. And more scientific research is needed on the health and agricultural problems which affect the lives of 1 billion people yet which claim less than 1 per cent of the world's research budgets in those two fields. But when science and technology are treated as the

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**The PQLI fuses the rates of literacy, infant mortality and life expectancy at age one into a single composite index with a high of 100 and a low of zero. For each of these three individual indicators, a rating of 100 represents the highest point which any country in the world can expect to achieve by the year 2000. A rating of zero, at the other extreme, represents the lowest rate prevailing anywhere in the world of 1950. One hundred on the life expectancy scale, for example, represents the 77-year average which a country like Sweden can expect to reach by the end of the century, whereas zero represents the 38-year life expectancy which prevailed in very poor countries 30 years ago.*

The PQLI gives equal weight to all three indicators and averages them to provide a measure of the physical well-being of a given population.

solution to the whole, they are, to borrow an image from Zen, like the sound of one hand clapping.

To move forward, and to make what has been achieved in the realm of technique more truly useful to the lives of the majority, it will be necessary to turn again to face the irreducible problems of political and social relationships – whether we are talking of people's participation or economic inequalities – with which humanity has always had to struggle but from which dramatic advances in techniques seem to have given us a temporary respite.

Unlike technical difficulties, such problems are not susceptible to the imposition of centralized solutions worked out by the few and applied to the many. They depend upon a decentralized diversity of approaches and experiments and are based as much on accumulated wisdom as on breakthroughs in know-how.

In other words, these are the really difficult problems of development. And they underlie many of the failures and the disappointments of the development effort in recent years.

As long as development is viewed as a question of scientific intervention by experts as opposed to a question of social organization by people, such disappointments are as inevitable as the discouragement which follows them.

And because disillusionment is as great a threat to progress as is economic recession, this report, which has focused on the ratio of resources to results, should conclude by re-calibrating the criteria by which 'results' are judged in order to take account not just of targets aimed for and resources available, but the fact that development is about social organization, and depends upon a process whose complexities we are only just beginning to understand.

Learning from development's disappointments

For too long now, the Third World has been portrayed to the industrialized world as a uniform entity within which one simple formula for development can be everywhere applied. To say that India, for example, has 500,000 villages conjures up in the mind not 500,000 villages but one village replicated 500,000 times. Yet no community in the developing world is less complicated than any community in the industrialized world. All communities have cultural and social norms, vested interests and class divisions, loyalties and jealousies, leadership patterns and change procedures, and established habits of body and mind. All communities are affected by psychological and cultural accommodations to what has been possible or necessary in the past. And no community is a blank slate on which outside experts can write prescriptions for improvement.

Perhaps because of the exigencies of raising funds, or because no one likes to see achievements fall short of hopes, there has been in the past a great reluctance to acknowledge disappointments in the field of development. And the public image of its workings become seriously distorted as a result.

There is still, for example, an abiding notion in the minds of many that an expert need only go into a village or a slum and impart his wisdom for it to be unanimously adopted to the instant benefit of all concerned.

In view of comparable efforts in the industrialized world, this is a strange misconception. For many years, experts possessed of knowledge have been using much more sophisticated communications technologies to reach a much more educated audience with the messages that cigarette smoking is injurious to the health, that seat belts save lives, that women should have equal rights, that the prevention of environmental pollution is cheaper than its cure, that lower automobile speeds save fuel and lives, that obesity is a health hazard, that the over-prescription of the abuse of drugs is not to be recommended, or that drinking and driving is anti-social. Yet the conveying of these messages has not automatically or instantly resulted in mass changes of behaviour, and, indeed, many of these 'logical and obvious benefits' have had to be assisted by legislation in order to increase their level of public acceptance.

It would be too generous to credit the Third World with a much greater capacity for instant change, and it is therefore reasonable to lower the pretence that every single cent allocated by governmental or private agencies to the task of world development is instantly translated into substantial and lasting benefits for the poor. Such a deception may warm the conscience of the donor, but it bears little relationships to the complexities of poverty and development.

In this context, the heresy of development projects which are less than 100 per cent successful is easier both to acknowledge and to learn from.

In adult literacy campaigns, for example, it has often been found that half of those who enrol do not complete the course and half of those who do fail to become literate.

In nutritional education, the World Health Organization has commented that 'many of these efforts have been unsuccessful in improving dietary practice'.

In women's training courses designed to impart income-earning skill, it is not uncommon to find that less than ten per cent of the participants are actually earning any money as a result.

In water programmes, UNICEF's own research publication reports that 'in one example after the first year of its implementation, up to 80 per cent of the handpumps are reported out of order.

In employment creation schemes, a recent study by the International Council for Educational Development reports that 'the record of success has generally been disappointing'.

The six-nation study referred to here was in fact financed by major foundations such as Ford and Rockefeller and by aid agencies of the governments of the Netherlands and the United States, as well as by several international voluntary organizations, for the purpose of analysing what had been learnt from the failures – and the successes – of projects designed to improve conditions in rural areas of the Third World. In his introductory overview to this study, project editor Philip H. Coombs sums up the dangers of regarding development as something to be delivered to the grateful poor:

> 'The mistaken assumption that underlies many top-down programmes, is that villagers, because they are illiterates, are unintelligent and must be treated like children. Hence the 'message' devised by experts at higher echelons often tends to talk down to the rural people, telling them what is 'good' for them (without really explaining *why*) and urging them to abandon various traditional practices in favour of innovative ones which the experts consider to be better.
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> 'But in reality most rural people, far from being stupid, have acquired considerable wisdom through the years of struggling for survival. They may cling to certain ill-founded myths and taboos that do them more harm than good, but they also have a very practical sense and a great fund of local knowledge that exceeds that of the outsider. Their

cautiousness about accepting advice from 'outsiders' is usually well-founded; they have been burned too often before. They may listen politely to them, but are unlikely to heed their advice – for example, to alter their diet or to adopt modern family planning methods or some agricultural innovation – until and unless they are convinced in their own mind, and by their own logic, that it is in their own best interests to do so. They are far more likely to accept the advice of a respected neighbour whom they consider the local expert on a particular matter than to follow the advice of outside specialists.

'Thus much of the impetus for change must come from *within* the community. The problem is how to spark this impetus and then how to get the community effectively organized for self-help, self-direction and broad-scale change.'

Such a conclusion may seem untidy, unsatisfying and elusive. But all of UNICEF's experience says it is close to the heart of the problem. And however less 'attractive' that problem may seem than the kind of problem which can be solved in a laboratory or on a computer or by a technical breakthrough, the development effort in the 1980s must again address itself to the issues of social and political relationships if it is to bring about significant improvements in the lives of the world's children. The questionmark for human progress during the remainder of the century hangs not over our ability to manipulate external circumstance, but over our ability – internationally, nationally and locally – to create just and sustainable social relationships. And the greatest lesson of the last three decades, and the one which holds out most hope of a better future for the world's children, is that world development is not just a process of technological intervention, but also of social organization, an art as well as a science.

UNICEF: Applying the lessons

In its attempt to assist in this process, UNICEF itself has changed its methods of operation since its inception 35 years ago. Then, almost three-quarters of its staff were housed at headquarters in New York. Now, more than three-quarters of its staff are living and working in the developing world. And, whenever possible, UNICEF now works through national offices and officers to find 'decentralised' solutions to the task of bringing more benefits to children for every available dollar.

The lessons which have been learnt over those decades and which have been discussed in this report – lessons about paraprofessional development workers, about peoples participation, about the synergistic benefits of integrated approaches, about prevention rather than cure, about the importance of social relationships as well as technological interventions – have led to the 'strategy of basic services' which now guides UNICEF's work for children in over 100 nations of the world. This 'basic services' approach is not a central formula for the imposition *of* development but decentralised strategy of participation *in* development. And as such it is based on training and assisting development workers to provide essential services to mothers and children in cooperation with poor communities throughout the world.

The result is that – in the last twelve months alone – UNICEF has helped to train over 115,000 health workers and to equip almost 43,000 health centres; to train over half a million village level nutrition workers and expand nutrition programmes in over 130,000 villages; to cooperate in almost 100,000 water supply systems and in the installation of over a quarter of a million sanitary latrines; to train over 90,000 teachers and to equip 88,000 primary schools.

Work of this kind by UNICEF and by governmental agencies needs to be backed by broader scale economic and social policies which concentrate national and international resources on the needs of the one-fifth of the world's people who today are the 'absolute poor'. And the more resources which can be made available for this investment through increased aid and more liberal trade policies in industrialized countries, and through increased priority to the poorest in the developing countries, the sooner will absolute poverty be abolished.

But this, the largest ever generation of children cannot wait. Their childhood, which is so threatened by the darkness of today's economic climate, will not stand still to await the restoration of economic growth. For them action is needed now to shift priorities in favour of mothers and young children, to refine and implement strategies for increasing the ratio between resources and results, and to make that most crucial investment in today's children and tomorrow's world. 'Each generation should pay to its successors the debt it owes to its fore-runners, 'wrote James Connolly,' and by spending itself for the benefit of its children, the human race ensures the progressive development of all'.

This four point program aimed at drastically reducing the incidence of child mortality through simple and inexpensive health practices can and should be made a component of all U.S. development assistance projects. We at Save the Children have promoted these practices in our own projects and have found an enormous complementarity with all other aspects of development. We hope that this Committee will seriously consider this approach and support its inclusion in the U.S. foreign assistance program.

IV

Save the Children believes that private and voluntary agencies (PVOs) have an increasingly important role to play in providing assistance in the developing countries, using both privately generated resources and resources provided through the U.S. Government. The Congress has recognized this role, and has mandated that AID aim toward channeling 16% or more of its development assistance funds through PVOs. We believe that this legislative mandate is a constructive one, and we fully expect that AID will make good faith efforts to comply with the will of Congress in this regard.

V

Along with members of this Subcommittee, Save the Children is concerned that PVOs retain their essentially private nature, and not become mere instrumentalities of the U.S. Government. To do so would be to betray the responsibility we hold to our many supporters across America and to the principles upon which our organizations are founded.

The Congress, having considered this important issue, chose to include in the Foreign Assistance Act of 1981 a provision establishing a 20% private funding requirement for PVOs receiving AID support. This requirement, being phased in over several years, provides the necessary stimulus to ensure true privateness. At this time, especially before the requirement has been fully implemented, we do not believe that any other or more drastic steps are needed. For this reason, we urge this Subcommittee to forego placing any additional restrictions on PVO funding in the absence of full consideration and analysis of the effect of the current legislation.

PREPARED STATEMENT OF JANICE MURPHY

MIDDLE EAST RESOURCE CENTER

I am Janice Murphy of the Middle East Resource Center (MERC). MERC is the Washington office of SEARCH for Justice and Equality in Palestine/Israel, a nationally based organization whose constituents believe that security for Israelis and justice for Palestinians are interdependent and not mutually exclusive. SEARCH was founded by a Jewish pacifist and has American Jews and Arab Americans among its members. We believe that our government, given its historic involvement in the Middle East must act to encourage all participants in the conflict to pursue diplomatic negotiations. All government actions in that region should be evaluated as to their effect on that objective.

This testimony is submitted with reference to the foreign aid requests for Israel and Lebanon, because foreign aid itself is an important part of our relationship with the conflicting parties in the Middle East.

We are concerned with the overall high level of aid that has been sent to the Middle East since 1978. The high level of aid was intended to fuel a peace process, believing the aid would increase the security of the recipients. Since 1978 there has been no resolution of the Palestinian/Israeli conflict; in fact, violence on the West Bank has increased, there is no resolution of the status of the occupied territories, althought the Golan Heights have been annexed, and the longest war of the conflict occurred last summer. That war was one of devastating proportions for the country of Lebanon. Still, no resolution of the conflict is at hand. We are experiencing only a momentary lull in the violence which is sure to go on until its root causes are addressed. We must ask what role U.S. foreign aid has played in all of this and submit to you that it has contributed to the escalation of hostilities in the area.

Therefore, the Middle East Resource Center is opposed to aid to Lebanon and Israel which is aimed at increasing the military capacity of either. This aid only contributes to a spiralling of the military build-up and has a deleterious effect on the prospect of negotiations, and therefore peace.

LEBANON

We oppose the $101 million supplemental request directed for the use of the Lebanese Army. Within the present political and military context in Lebanon, military aid is unlikely to produce an end to the violence for several reasons. Although it may not appear so at first glance, in a society of many private armies, military power is not the ultimate expression of strength. The credibility of the government with some of the powerful private militias depends less on their military capacity than on their work at the negotiating table in securing the removal of the occupying forces, particularly the Israeli Army. The Israeli Defense Force (IDF) has allowed the extension of the forces of cashiered Colonel Saad Haddad into the area near Sidon. Since Haddad is not answerable to the Lebanese Army, but is in the employ of the Israeli Government, his control of the area will be greatly reduced by the removal of the Israeli forces. Until that time, his presence seriously undermines the claim of the Gemayel government to be the legitimate source of power, no matter how much equipment, training, and aid is sent by the U.S. to his army. Further, without effective U.S. pressure to effect the removal of the IDF from the south, the U.S. would be in the position of arming two competing military forces -- directly in the form of the Lebanese Army and indirectly in supporting Israel which has armed the Phalange and the Haddad militias.

Moreover, it is not yet clear whether the current government, now only solidly in control of war-devastated west Beirut, is capable of impartially representing all of Lebanon. Its massive arrests in west Beirut and imprisonment of many of its residents without any corresponding sweep of Phalangist strongholds raises serious doubts. Non-military aid which addresses the needs of all residents in Lebanon could more effectively enhance the reputation and authority of the government.

Given the widespread reports of harrassment of Palestinians in south Lebanon and the historic conflicts within Lebanon, the retention of the UN Interim Force in Lebanon (UNIFIL) along the southern border remains essential.

ISRAEL

We oppose military aid to Israel as well. The current level of U.S. aid to Israel is detrimental to the prospects of peace in the area. The aid has reinforced intractable or expansionistic policies.

"Help us by cutting aid" is the cry not of the Palestinian resident of Sabra and Shatilla but of Israeli citizens who form part of the peace movement there. As Mattityahu Peled pointed out:

> In the year before the invasion-a year of unprecedented quiet on the Lebanese border due largely to the cease-fire between Israel and the Palestine Liberation Organization that the American envoy, Philip Habib, arranged in July 1981-the Israeli Chief of Staff, General Rafael Eytan, was asked why he advocated an invasion of Lebanon. He answered: "What do you suppose I have built a large modern army for?"
>
> We Israelis must answer to ourselves for that and for our disregard of David Ben-Gurion's warning,(against a large standing army). But I, for one, would also like to ask the American taxpayer: "Why are you giving us the rope with which to hang ourselves?"

SETTLEMENTS IN THE OCCUPIED TERRITORIES

An intrinsic part of President Reagan's September 1 peace initiative, seen as a long overdue attempt to move the negotiations forward, was a call for a freeze on Israeli settlements. This freeze request was not heeded because the Israeli government had decided the future of the West Bank and Gaza. There is a fear that the current government policies will bulldoze facts into existence regardless of

U.S. presidential initiatives. According to Meron Benvinisti, the budget for the projects is about $100 million, an estimate based on published budgets of various government ministries such as public works, telecommunications, and education. The largest appropriations are to the Housing Ministry for building and infrastructure ($50 million) and the Agriculture Ministry ($31 million).

Again, the Israeli government can ignore U.S. interests as long as the foreign aid continues unabated. Additionally, as Ian Lustick has pointed out in the Winter 1982-83 issue of Foreign Affairs, due to stated U.S. opposition to settlements in the occupied territories, U.S. aid was never to go to any projects there. Economic aid to Israel has always been in the form of cash transfers; projects were not specified and the Agency for International Development (AID) was never assigned to monitor the aid. Economic aid in the future should not be available through the Economic Support Fund, but through Development Assistance. This would make it possible to create a bureaucratic mechanism for AID to evaluate and monitor its use in Israel. Lustick suggests such an action would be perceived as a sign of U.S. sincerity by those critical of its past aid program.

SUPPRESSION OF DEMOCRATIC FREEDOMS

In March of 1982, Israel dissolved an elected municipal council in the West Bank's fourth largest city and replaced it with a military authority. Freedom of the Palestinain press is curtail Foreign professors, including those Palestinians who hold Jordanian passports, but whose families are from the West Bank, have been removed from their posts due to political pressure. Mayors have been dismissed. Among the many militarily coercive measures recommended by Chief of Staff Rafael Eitan were the harrassment of the families of stone throwers and the incredible statement that IDF soldiers should not interrogate Palestinians because "we demean ourselves" by that action. Within Israel itself Israeli Arabs are repressed by the economic and political measures of the state.

THE INVASION OF LEBANON

According to the Lebanese government, about 20,000 died during the war, 30,000 were wounded, and 600,000 persons were displaced. Eighty-four percent of those affected were civilians. The Lebanese government cited destroyed houses: 13,500 in west Beirut, 2700 in Sidon, 1400 in Damour, and 500 in Tyre. Israel claimed to have restored sovereignty to Lebanon. All of this sounds suspiciously like "we had to destroy the country in order to save it". There had been no precipitating violence in the Galilee, as the cease-fire negotiated by Ambassador Habib had been effective. Hostility to the U.S. has grown significantly since the war, and especially since the massacres in Sabra and Shatilla - hostility which increased aid to Lebanon will insufficiently address. U.S. government aid was intended to prevent war, insure stability, but instead helped finance an unprovoked slaughter that succeeded in producing widespread condemnation of the U.S. among third world peoples and others, including, as was stated earlier, Israeli peace activists. In the light of the U.S. budgetary support of Israel, our pronouncements of concern for the rights of all parties are discounted.

ISRAELI ECONOMY

It is true that the Israeli economy is significantly dependent on U.S. foreign aid. Israeli foreign debt is the highest in the world. Israel is now in the position of requesting increased aid from the U.S. only to service its debt. Yet, this cannot constitute a rationale for continued U.S. economic support at this level. The aid does not provide a way out of the problem, but instead only perpetuates it.

The Israeli economy is stagnating: the Gross National Product (GNP) had not increased over that of 1981. Moreover, exports are falling and deficits are rising. Yet, private consumption rose by 5% in per capita terms, and there is a 16% increase in the purchase of durable goods. Clearly the expense of the war in Lebanon and the expansion of the settlement program has not been borne by the Israeli taxpayer. Despite high inflation, the Israeli citizens are protected by U.S. aid. Foreign aid provided half of their GNP and 70-80% of that amount is provided by the U.S. Meanwhile, those third world countries facing severe problems of development are competing for U.S. foreign aid at a time when the concept of foreign aid itself is under strong domestic criticism, given the far reaching cuts in the U.S. domestic social and welfare programs in recent years.

The presence of our aid, regardless of intentions, has undermined perceptions of U.S. goodwill to all parties, Arab as well as Israeli. Aid, regardless of intentions, has rewarded intransigence, weakened the hands of Israeli peace activists, made possible Israeli acts detrimental to U.S. goals in the region, and weakened the hands of those in the P.L.O. leadership who have looked for diplomatic openings for peace.

PREPARED STATEMENT OF WALLACE J. CAMPBELL

PRESIDENT

CARE, INC.

Mr. Chairman: CARE is pleased to have this opportunity to testify before the Senate Foreign Operations Subcommittee of the Appropriations Committee. Wisconsin, incidentally, was one of the leading states over the last six monthes in contributions to CARE. From July 1982 to February 1983, Wisconsin ranked fourth in the United States providing $361,000 in cash donations. Yet CARE benefits reached Wisconsin too. A large portion of P.L. 480 food shipments leave the port of Milwaukee passing through the Great Lakes, and soy and dairy fortified foods used in CARE feeding programs are often processed by Wisconsin companies.

In many respects 1982 was a watershed year for CARE. We moved further ahead in creating CARE International, a service organization supported by CARE affiliates in Canada, Norway, Germany, Europe and the United States. We have expanded some emergency and on-going feeding programs while adhering to the scheduled phase-over of others to host country governments to better insure self-sufficiency and self-reliance. Our country directors have implemented several new development projects in accordance with their multi-year development strategies and have found innovative ways to use food to promote development and greater food production; and we have launched several re-forestation projects in West Africa and Central America under a million dollar "matching grant" with AID.

Of the five CARE affiliates, CARE-USA, the parent organization, is the largest. In 1982 we were operating in 38 developing countries with a program budget of $273 million. Our programs include food distribution, disaster and emergency relief and development assistance. However in common with all projects is a philosophy of self-help development often achieved by working in collaboration with other local organizations and indigenous cooperatives. In each of the countries in which CARE works, these local organizations, communities and governments often make significant contributions which are seldom reflected in annual financial statements: contributions, for instance, in labor, technical services and materials in support of development projects and in transportation and storage facilities for food and nutrition programs.

The funding of CARE projects is also quite varied. Some projects are financed exclusively through private contributions, while others by AID (often under the "Operating Program Grant" mechanism which requires a 25% non U.S. Government share) and by multilateral organizations (such as the UNHCR to support CARE's feeding of refugees in Somalia). Still other projects may be funded by other CARE national affiliates or even collectively by

CARE International. As a result, several projects and funding sources will simultaneously be managed by the CARE country director, and the varying concerns and requirements of different donors will need to be coordinated. To be effective and efficient requires a well balanced portfolio of projects and funding sources that allows the country director the flexibility needed to develop and implement a multi-year development plan.

CARE has also demonstrated that it is cost effective in providing overseas development assistance. For every U.S. Government dollar provided under grant or contract (excluding P.L. 480 and in-kind contributions) CARE raised more than the equivalent amount privately. In 1982 these private cash contributions totalled $32.5 million. Furthermore, management and fundraising costs in 1982 represented only 4.6% of the total program value.

CARE has a great responsibility in being one of the largest private voluntary organizations in the world working in overseas development. Organizations as ours have their own traditions, relationships, styles and philosophies which not only help focus development resources on problems in distinctive ways, but may also help achieve other social purposes in the process such as encouraging volunteerism and cooperation, organizing producers and consumers into a cooperative, or integrating women more fully into the development process through income generating projects.

The CARE Packages that were first delivered to war torn Europe in May 1946 are, of course, no longer being sent. By 1955 a great part of our work in Europe had been finished and our efforts turned instead to poor developing countries. Yet even today the CARE Package remains a prominent symbol of the American public's concern for the disadvantaged, the hungry and the poor of the world. I would like to suggest that in planning future visits to Africa, Asia or Latin America, Committee members take time to visit CARE projects and the projects of other private voluntary organizations and see for yourselves the work that we are doing.

PREPARED STATEMENT OF DAVID GUYER
PRESIDENT

AMERICAN COUNCIL OF VOLUNTARY AGENCIES FOR THE FOREIGN SERVICE, INC.

MR. CHAIRMAN AND MEMBERS OF THE SUBCOMMITTEE:

MY NAME IS DAVID GUYER AND I SERVE AS THE ELECTED CHAIRMAN OF THE AMERICAN COUNCIL OF VOLUNTARY AGENCIES FOR FOREIGH SERVICE, WHILE AT THE SAME TIME I AM PRESIDENT OF SAVE THE CHILDREN. I AM PRIVILEGED TO HAVE THIS OPPORTUNITY TO PRESENT, ONCE AGAIN, TO THIS DISTINGUISHED SUBCOMMITTEE OUR COMMENTS ON THE FOREIGN ASSISTANCE REQUESTS FOR FY'84.

THE AMERICAN COUNCIL OF VOLUNTARY AGENCIES FOR FOREIGN SERVICE (ACVAFS) IS A CONFEDERATION OF MAJOR VOLUNTARY AGENCIES WHICH OPERATE DEVELOPMENT AND HUMANITARIAN PROGRAMS ASSISTING REFUGEES, VICTIMS OF NATURAL AND MAN-MADE DISASTERS, AND THE POOR IN OVER 100 COUNTRIES THROUGHOUT THE WORLD. THE ESSENTIAL CHARACTERISTIC WHICH DISTINGUISHES THESE AGENCIES FROM OTHER NON-PROFIT GROUPS ENGAGED IN OVERSEAS ACTIVITIES, RESIDES IN THE FACT THAT THEY WERE ESTABLISHED BY A GROUP OF PRIVATE CITIZENS FOR STATED PHILANTHROPIC PURPOSES AND SUPPORTED PRIMARILY BY VOLUNTARY CONTRIBUTIONS FROM PRIVATE CITIZENS. THESE GROUPS INCLUDE LARGE RELIGIOUS-RELATED BODIES SUCH AS THE AMERICAN JEWISH JOINT DISTRIBUTION COMMITTEE, THE AMERICAN FRIENDS SERVICE COMMITTEE, CATHOLIC RELIEF SERVICES, CHURCH WORLD SERVICE, AS WELL AS NON-SECTERIAN ORTANIZATIONS SUCH AS SAVE THE CHILDREN, CARE, THE INTERNATIONAL RESCUE COMMITTEE, HEIFER PROJECT INTERNATIONAL, AND SMALLER ETHNIC GROUPS SUCH AS THE AMERICAN FUND FOR CZECHOSLOVAK REFUGEES. THE TOTAL OF THESE CONSTITUENCIES, BOTH IN MEMBERS AND CONTRIBUTORS, HAS BEEN ESTIMATED AT OVER ONE HUNDRED MILLION PEOPLE IN THE U.S. IN 1982 THE INCOME FOR HUMANITARIAN AND DEVELOPMENT PROGRAMS OF THESE AGENCIES AMOUNTED TO OVER 800 MILLION DOLLARS, AS REPORTED BY THE U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT. THE ACVAFS MEMBERSHIP LIST IS APPENDED TO THIS TESTIMONY FOR YOUR INFORMATION.

ANOTHER IMPORTANT CHARACTERISTIC OF THE VOLUNTARY AGENCY COMMUNITY LIES IN THEIR VILLAGE-CENTERED, MICRO-DEVELOPMENT, PEOPLE-TO-PEOPLE APPROACH TO PLANNING AND EXECUTING PROJECTS OVERSEAS. THEIR FIELD STAFF USUALLY LIVE IN REMOTE RURAL AREAS AND SHARE THE PROBLEMS AND ASPIRATIONS OF THE PEOPLE AND THE COMMUNITIES THEY ARE ASSISTING. MOREOVER, AN INCREASINGLY LARGE NUMBER OF THE

AMERICAN COUNCIL'S MEMBER AGENCIES EMPLOY NATIONALS TO DIRECT THEIR PROJECTS WITHIN THE RECIPIENT COUNTRIES. AS A RESULT THEY KNOW MORE ABOUT WHAT IS CULTURALLY POSSIBLE AND WHOM TO SUPPORT, AND THEY ENCOURAGE COMMUNITY MEMBERS TO PARTICIPATE IN DESIGNING AS WELL AS IN IMPLEMENTING THE PROJECTS.

THE PRIVATE NON-PROFIT SECTOR IN FOREIGN ASSISTANCE:

PRIVATE VOLUNTARY AID TO SO-CALLED LESS DEVELOPED COUNTRIES IS AN IMPORTANT THIRD CHANNEL THROUGH WHICH RESOURCES ARE TRANSFERRED FOR DEVELOPMENT PURPOSES; THE OTHER TWO CHANNELS ARE THROUGH GOVERNMENTS AND MULTILATERAL INSTITUTIONS. THE 1982 REVIEW ON DEVELOPMENT COOPERATION PUBLISHED BY THE ORGANIZATION FOR ECONOMIC COOPERATION AND DEVELOPMENT IN PARIS, REPORTS THAT IN 1981 U.S. PRIVATE VOLUNTARY AID DISBURSEMENTS AMOUNTED TO 1,018,000,000 DOLLARS, OVER 15% OF THE TOTAL U.S. OFFICIAL DEVELOPMENT ASSISTANCE ($6,698,900,000) FOR THE SAME PERIOD. THIS NOT INSIGNIFICANT AMOUNT DONATED BY THE AMERICAN PUBLIC TO PRIVATE VOLUNTARY AGENCIES INDICATED THEIR CONTINUING SUPPORT FOR FOREIGN ASSISTANCE AND THE VOLUNTARY AGENCIES' APPROACH TO DEVELOPMENT. ACCORDING TO A GALLUP POLL CONDUCTED IN 1981, 40% OF AMERICANS FAVOR AN INCREASE IN AID TO THE THIRD WORLD BY PROVIDING RESOURCES "TO PEOPLE TO FIND WAYS AND MEANS TO HELP THEMSELVES SOLVE THEIR OWN PROBLEMS."

COOPERATION AMONG DONOR AND IMPLEMENTING AGENCIES:

HUNGER AND POVERTY PRESENT A SET OF PROBLEMS WHICH CHALLENGES THE RESOURCES AND COLLECTIVE INGENUITY OF MULTILATERAL INSTITUTIONS, GOVERNMENTS AND VOLUNTARY AGENCIES. THESE PERVASIVE WORLD NEEDS REQUIRE COOPERATION AMONG ALL ENTITIES TO POOL THEIR RESOURCES AND HUMAN SKILLS TO HELP SOLVE THESE PROBLEMS. IN 1976 CONGRESS DIRECTED THE AGENCY FOR INTERNATIONAL DEVELOPMENT TO PROVIDE GREATER SUPPORT FOR VOLUNTARY AGENCIES' PROGRAMS AND TO FOCUS ON MEETING BASIC HUMAN NEEDS. AN UNEASY AND SOMEWHAT UNEQUAL PARTNERSHIP HAS DEVELOPED OVER THE YEARS. RECENTLY, EFFORTS HAVE BEEN MADE BY AID TO IMPROVE THE RELATIONSHIP. CREDIT FOR THESE EFFORTS IS DUE TO THE AID ADMINISTRATOR, Mr. M. PETER MCPHERSON, AND HIS STAFF WHO HAVE MADE MAJOR EFFORTS TO KEEP COMMUNICATION LINES OPEN BETWEEN THE PUBLIC AND PRIVATE SECTORS ON THESE MATTERS. COOPERATION BETWEEN UNICEF AND THE VOLUNTARY AGENCIES IS THE OPERATING NORM IN MANY COUNTRIES BECAUSE OF THE AFFINITY BETWEEN THEIR PROGRAMS. THIS IS ALSO THE CASE BETWEEN THE UNITED NATIONS HIGH COMMISSIONER FOR REFUGEES AND THE REFUGEE RESETTLEMENT

AGENCIES. THE UNITED NATIONS DEVELOPMENT PROGRAMME IS CURRENTLY REVIEWING ITS OWN GUIDELINES FOR FIELD COOPERATION WITH THE NON-GOVERNMENTAL ORGANIZATIONS AND IS PLANNING TO SELECT A NUMBER OF COUNTRIES TO IMPLEMENT THESE GUIDELINES.

SEPARATE LEGISLATION FOR DEVELOPMENT ASSISTANCE AND SECURITY ASSISTANCE:

BECAUSE OF OUR AGENCY MEMBERS' DEEP COMMITMENT TO ASSISTANCE TO MEET THE BASIC HUMAN NEEDS IN THE THIRD WORLD, WE CANNOT SUPPORT THE FY'84 BUDGET REQUESTS FOR FOREIGN ASSISTANCE AS THEY ARE CURRENTLY PRESENTED. WE BELIEVE THAT ALTHOUGH FOREIGN ASSISTANCE IS GUIDED BY SECURITY, ECONOMIC AND HUMANITARIAN CONCERNS, MILITARY ASSISTANCE AND ECONOMIC SUPPORT FUNDS TAKE A DISPROPORTIONATE SHARE IN THE CURRENT LEGISLATION.

THE AMERICAN COUNCIL HAS LONG ADVOCATED THAT DEVELOPMENT AND ECONOMIC ASSISTANCE, WHICH EXEMPLIFIES THE GENUINE DESIRE OF THE AMERICAN PUBLIC TO ASSIST THE COUNTRIES IN THE THIRD WORLD TO MEET THEIR OWN PEOPLES' BASIC NEEDS, BE SEPARATE FROM THE OTHER PART OF FOREIGN ASSISTANCE WHICH IS GUIDED BY STRATEGIC AND SECURITY INTERESTS OF THE U.S.

A MORE BALANCED AID PROGRAM:

IN REVIEWING THE PROPOSED FOREIGN ASSISTANCE BUDGET WE FIND THAT THE REQUESTED INCREASE IN SECURITY ASSISTANCE IS EIGHT TIMES AS GREAT AS THAT FOR DEVELOPMENT ASSISTANCE. SIMILARLY, THE AMOUNT REQUESTED FOR ECONOMIC SUPPORT FUNDS (ESF) FOR ALL THREE REGIONS (AFRICA, ASIA AND LATIN AMERICA) is 3.3 TIMES HIGHER THAN FOR DEVELOPMENT ASSISTANCE. IN THE CASE OF ASIA THE DEVELOPMENT ASSISTANCE REQUEST IS LOWER THAN THE FIGURES FOR FY'83.

FOR REASONS MENTIONED IN THE PRECEDING PARAGRAPH WE RECOMMEND THAT ECONOMIC SUPPORT FUNDS WHICH WOULD BE USED FOR DEVELOPMENT PURPOSES BE TRANSFERRED TO THE DEVELOPMENT ASSISTANCE ACCOUNTS SO THAT THEY WILL GO TO COUNTRIES WHERE BASIC HUMAN NEEDS ARE GREATER RATHER THAN TO COUNTRIES WHERE STRATEGIC AND POLITICAL CONCERNS ARE DOMINANT.

TARGETTED AID TO THE POOR:

WE RECOMMEND THAT THE SUBCOMMITTEE ADOPT THE INTENT OF THE BREAD FOR THE WORLD AMENDMENT WHICH WAS INTRODUCED LAST YEAR CALLING FOR THE EXPENDITURE OF UP TO 40% OF DEVELOPMENT ASSISTANCE FUNDS FOR PROJECTS, GOODS AND SERVICES BENEFITTING THE LOWER 40% OF THE POPULATION IN THE LEAST DEVELOPED COUNTRIES (ACCOR-

DING TO THE WORLD BANK DEFINITION). ACCORDING TO THE EXPERIENCE OF OUR MEMBERS, VOLUNTARY AGENCIES' DEVELOPMENT ASSISTANCE PROGRAMS USUALLY BENEFIT SUBSISTENCE FARMERS, RURAL AND URBAN POOR INCLUDING WOMEN WHO MAKE UP THE MAJOR PART OF THIS POPULATION.

ASSISTANCE TO AFRICA:

WE WELCOME THE CONTINUING SUPPORT FOR THE SAHEL REGION IN AFRICA. HOWEVER, THE FOOD CRISIS THROUGHOUT THE CONTINENT HAS DETERIORATED. THE U.N. FOOD AND AGRICULTURAL ORGANIZATION AND THE WORLD BANK ISSUED ALARMING REPORTS ON THE INCREASINGLY LOW FOOD PRODUCTION AND THE WORSENING DROUGHT SITUATION IN MANY COUNTRIES SOUTH OF THE SAHARA. DESPITE THESE REPORTS THE REQUESTED DEVELOPMENT ASSISTANCE FUNDS ARE ONLY TEN MILLION DOLLARS HIGHER THAN THAT OF LAST YEAR. ON THE OTHER HAND, THE INCREASE IN THE ESF REQUESTS WHICH WOULD BE ALLOCATED TO THREE COUNTRIES (SUDAN, ZAIRE AND XIMBABWE) IS EIGHT TIMES AS LARGE AS THAT FOR DEVELOPMENT ASSISTANCE. IN ADDITION TO THE CRITICAL FOOD SITUATION, MANY AFRICAN COUNTRIES ARE ALSO AFFECTED BY LARGE MOVEMENTS OF REFUGEES AND DISPLACED PERSONS.

WE RECOMMEND THAT THE DEVELOPMENT ASSISTANCE FUNDS FOR AFRICA BE INCREASED AND THAT ADDITIONAL FUNDS BE MADE AVAILABLE FOR DEVELOPMENT PROGRAMS IN AREAS IMPACTED BY LARGE REFUGEE FLOWS.

ASSISTANCE TO THE CARIBBEAN AREA AND CENTRAL AMERICA:

WHILE THE CARIBBEAN BASIN INITIATIVE FOCUSES ON TRADE AND THE BALANCE OF PAYMENTS, THE NEEDS OF THE POOR POPULATION IN THE REGION WERE TO BE MET WITH THE USE OF LOCAL CURRENCIES. WE URGE THE SUBCOMMITTEE TO ALLOCATE ADDITIONAL FUNDS FOR DEVELOPMENT PURPOSES THAT WOULD BENEFIT THE POOR IN THE AREA. WE ALSO URGE THAT AID TO EL SALVADOR BE PROVIDED ON THE CONDITION THAT ALLOUT EFFORTS ARE UNDERTAKEN TO BRING ABOUT A DIALOGUE AMONG ALL PARTIES CONCERNED.

SUPPORT FOR MULTILATERAL INSTITUTIONS:

AS WE MENTIONED AT THE BEGINNING OF THIS TESTIMONY MULTILATERAL INSTITUTIONS SUCH AS THE SPECIALIZED AGENCIES OF THE U.N. PROVIDE AN IMPORTANT CHANNEL FOR DEVELOPMENT ASSISTANCE TO THE THIRD WORLD. WE RECOMMEND THAT THE SUBCOMMITTEE RAISE THE REQUESTED CONTRIBUTIONS TO UNICEF, UNDP, UNHCR, IDA AND THE WORLD FOOD PROGRAMME. WE ESPECIALLY URGE YOU TO MAKE A DIRECT CONTRIBUTION TO THE U.N.

VOLUNTARY FUND FOR THE U.N. DECADE FOR WOMEN. IT IS THE ONLY PROGRAM OF THE U.N. THAT SUPPORTS WOMEN'S PRODUCTIVE ROLE AND PROVIDES THEM LIMITED PROTECTION FROM THE EFFECTS OF THE LOW PRIORITY GIVEN TO THE ROLE OF WOMEN IN DEVELOPMENT IN MANY GOVERNMENT PROGRAMS.

WE ARE ALSO CONCERNED ABOUT THE SIXTH REPLENISHMENT TO THE INTERNATIONAL DEVELOPMENT ALLOCATION AND URGE YOU TO APPROVE THE $1.34 BILLION CONTRIBUTION TO THAT INSTITUTION.

IN CONCLUSION, THE VOLUNTARY AGENCIES, MEMBERS OF THE AMERICAN COUNCIL, FIRMLY BELIEVE THAT U.S. FOREIGN POLICY OBJECTIVES COULD BE ENHANCED BY A TRULY RESPONSIBLE AND GENUINE DEVELOPMENT ASSISTANCE POLICY.

NAM
National Association
of Manufacturers

LAWRENCE A. FOX
Vice President and Manager
International Economic Affairs Department

March 17, 1983

The Honorable Mark O. Hatfield
Chairman
Senate Appropriations Committee
322-H Senate Office Building
Washington, D.C. 20510

Dear Mr. Chairman:

An important budgetary decision is about to be taken by you and your fellow members on the Senate Appropriations Committee concerning the Export-Import Bank.

NAM has consistently supported a vigorous, hard-hitting export expansion program. This requires adequate funding of the Export-Import Bank so that it can provide export credit on competitive terms with that available to foreign competitors. We believe the Administration's proposed F.Y. 1984 funding package--$6.5 billion in direct loan authority and $10 billion in loan guarantee authority--is a major improvement over F.Y. 1983, and we wholeheartedly support the over-all proposal. However, we do not favor the Administration's plan to divide the direct loan authorization and appropriation into two parts: $3.83 billion to be made available in the normal manner and $2.67 billion by supplemental authorization and appropriation. We urge that the full authorization and appropriation be approved at this time.

If the Eximbank had the full $6.5 billion to work with from the beginning, the funds could be used with maximum effectiveness. Business requires assurance that loans will be available as needed in making commitments for foreign sales. Studies by the Office of the United States Trade Representative, the Department of Commerce, and the Eximbank, have documented a loan demand in F.Y. 1984 for Eximbank direct credit which will easily exceed the $6.5 billion authorization level. Considering the difficulty involved in going back to Congress for supplemental funds half-way through the fiscal year, there appears to be no logical reason for the two-step approach. Eximbank's record of great care in making loans is good assurance that funds will not be used if not needed. This, taken with the great possibility that the second step of the two-step process will not take place in time to be useful in F.Y. 1984, makes a very persuasive case for a simple full authorization from the very start of the fiscal year. Bi-partisan support for the one-step approach has been promoted by Congressmen Bonker and AuCoin in their joint letter to the Speaker of the House.

Official U.S. export financing through the Export-Import Bank, has an important role to play in improving the competitiveness of U.S. manufactured goods, in particular of capital goods and other big ticket items. Although most U.S. manufactured exports are sold without Eximbank assistance, the Export-Import Bank has been the principal means of financing exports in a broad range of U.S. manufactured products for almost forty years. In 1982, for example, Eximbank financing generated over $18 billion in U.S. exports. At 25,000 jobs per $1 billion worth of exports, Eximbank, alone, supported over 450,000

American jobs. An improvement in the U.S. competitiveness of manufactured goods, in particular in the next few years, means more jobs in an economy that may be plagued with low growth throughout the 1980s. A recent Census Bureau report states that in 1977-80 nearly 30 percent of the net increase in private sector employment was due to manufactured exports. In 1980, 4.8 million jobs were related to the export of manufactured products, 1.5 million more than in 1977, and 79% of all new manufacturing jobs in that period were export related. On the other hand, thousands of American jobs in individual industries have been lost due to increased import penetration and the loss of world market shares by U.S. exports.

Due to inadequate appropriations, however, the Eximbank has not yet realized its full potential. Limited resources have meant that the bank is not competitive with foreign official export credit programs in Europe and Japan, for example. A major reason for the insufficient funding of the Eximbank by Congress is a lack of knowledge of the limited impact of the Bank's budget authority on the Federal Budget. The enclosed NAM Issue Brief explains the Bank's budget and its impact. Chart 2, for instance, shows that since 1977, total Exim program authorizations of $57.2 billion required net outlays of only $5.44 billion.

The uncompetitiveness of the Eximbank's program has, in the past two years, cost U.S. exporters millions of dollars worth of sales and thousands of jobs, as was brought out in testimony before the Senate Banking Committee in September 1982. Full appropriations for the Bank will help remedy the disadvantage American exporters face as a result of inadequate export financing.

We note that the President, in his 1983 State of the Union Address, indicated his intention to rectify past underfunding of the Bank and stated that "...we must have adequate export financing to sell American products overseas..." We believe the F.Y. 1984 budget makes an excellent step in this direction.

In light of the impact the exports financed by Exim programs could have on the U.S. economy and U.S. employment, we strongly urge you to support a stronger Eximbank budget as a cost-effective way to help put the American economy back on track.

I would greatly appreciate it if you could make this letter a part of the record of the Committee's hearings.

Sincerely,

Lawrence A Fox

Lawrence A. Fox

Issue Brief

Export-Import Bank Reauthorization in 1983

A public policy summary

Issue

The Congress must act by September 30, 1983, to reauthorize the Export-Import Bank of the United States. The bank, which provides financial assistance to American exporters through a variety of loan, guarantee and insurance programs, is critical to any U.S. export expansion policy. In recent years, however, U.S. manufacturers with superior products and competitive pricing have lost sales due to inadequate export financing.

What is disturbing about the poor competitive position of the Export-Import Bank is that U.S. trade problems can only be solved over the next decade by increasing exports of precisely those manufactured goods that need the support of an official export financing system. The realities of the world marketplace require exporters of capital goods and other manufactured equipment to put together the financing package for their customers. Whether the final price is competitive often depends on the export financing arrangements available.

Our industrial competitors have consistently regarded exports as a critical element of their overall economic policy, with government financing an essential ingredient in promoting export expansion. In the past few years Japan, the United Kingdom and Germany have supported over six times the percentage of exports than has the United States. These nations, as well as many others, are fully committed to expanding exports through official export financing. Since this commitment will certainly continue during the 1980s, the United States must address this challenge and begin to strengthen its export financing system.

- *Small- and Medium-Sized Exporters.* While U.S. exporters, in general, have been hurt by the Eximbank's less-than-competitive programs, those who face the most difficult situation of all may be small- and medium-sized exporters who are trying to arrange competitive medium-term financing (e.g. 2-5 years, under $2.5 million).

Despite a recent decline in interest rates, the Exim medium-term financing program is still not competitive with those of our major trade partners.

Two examples of policies contributing to the uncompetitiveness of Eximbank's medium-term as well as long-term programs are 1) the one-time "up-front" 2 percent fee Eximbank charges for credit applications; and 2) only allowing a maximum of 65 percent of the value of U.S. exports to be covered by direct credits while foreign competitors provide 80 to 85 percent coverage.

In addition, the bank's program has very limited funds with which to support U.S. manufacturers in sales of less than $5 million. Such limited funding has resulted in Exim financing that is "far inferior" to that of our major competitors, according to a recent George Washington University study.

The principal findings of this study, covering six case studies, indicated shortcomings of a considerable magnitude in Eximbank programs. The firms that were studied were all losing "the competitive battle" because foreign firms were able to get financing as low as 6.5 to 7.5 percent in 1981 and 1982. The resulting loss of exports can be expected to cause at least "a reduction of employment in the small to medium sized-firms and at worst, the demise of superior companies that are producing superior products in the United States."

The Eximbank initiated two new programs in October 1982 to help increase the bank's competitiveness. These new programs are the Small Manufacturers Discount Loan Program for companies which, together with all affiliates, subsidiaries and parent companies, had total gross annual sales of $25 million or less in the previous fiscal year and a new medium-term credit program which provides fixed interest rate support for medium-term export sales which face subsidized officially supported export credit competition from abroad. Small and medium-sized exporters contend that these programs are still not competitive.

☐ *Exim Budget.* One of the reasons the U.S. export financing system—medium- and long-term—is so uncompetitive is a misunderstanding about the cost to the U.S. taxpayer of providing adequate funding for the Eximbank.

The Eximbank receives no tax dollars from the U.S. Congress to cover the loans and guarantees it makes or the costs incurred in implementing its programs. Instead of appropriating funds for the Eximbank, Congress establishes a ceiling on the level of program activity that the Bank may engage in for each fiscal year. The bank then borrows the necessary funds from the Federal Financing Bank (FFB), an agency of the U.S. Treasury. All banks, whether commercial institutions or official government agencies, borrow in the credit markets to obtain the reserves necessary to provide loans to customers. In Eximbank's case, it borrows indirectly from the credit markets through the FFB (which borrows in the capital markets for several federal government agencies).

The Eximbank generates resources to repay its borrowings through loan repayments, interest on outstanding loans, commitment fees and insurance premiums. So far the bank has been able to absorb the cost of its borrowings, repay the FFB with interest, pay the Treasury Department more than $1 billion in dividends and triple its initial capitalization of $1 billion. In short, the Eximbank operates similarly to a commercial bank. It makes loans and charges interest and fees for services. As the loans are repaid and fees collected, the bank repays its own borrowings and the interest due on these borrowings, pays administrative costs and dividends and builds up reserves. Although each year Congress sets a limit on the amount of loans and guarantees that the Eximbank is allowed to issue, net outlays by the bank for its programs are much lower than the authorization figures. There are two reasons for this discrepancy.

First, there is no budget outlay for guarantee and insurance programs, which account for well over half of the annual authorization for the Eximbank, unless a claim is made against the bank. In the bank's almost 50 years of existence, the default rate on its guarantee program has been only three-tenths of 1 per cent of all guarantees issued.

Second, authorizations are made annually while outlays flow from these authorizations over a period of years. Thus, while the direct and discount loan programs are included at full value in the budget authority figures and the bank usually authorizes up to its limit, net outlays (what must be financed by borrowing from the FFB) are much smaller. To measure actual outlays, the schedule of disbursements must be taken into account, with loan repayments and interest payments subtracted from total expenditures.

Chart 1 illustrates how this process works using FY 1982 as an example. Prior year commitments on direct loans payable in FY 82 of $2.07 billion, current and prior year authorizations for discount loans of $.23 billion, and disbursements on new direct loans of $.28 billion required total loan disbursements of $2.58 billion. Operating costs, interest payments, administrative costs and net claims paid out were $1.72 billion.

These obligations were offset by $1.73 billion in loan principal repayments, $1.36 billion in interest charges and $40 million in guarantee insurance premiums and fees. Total

Chart 1

Eximbank Impact on FY 82 Federal Budget in $ billion

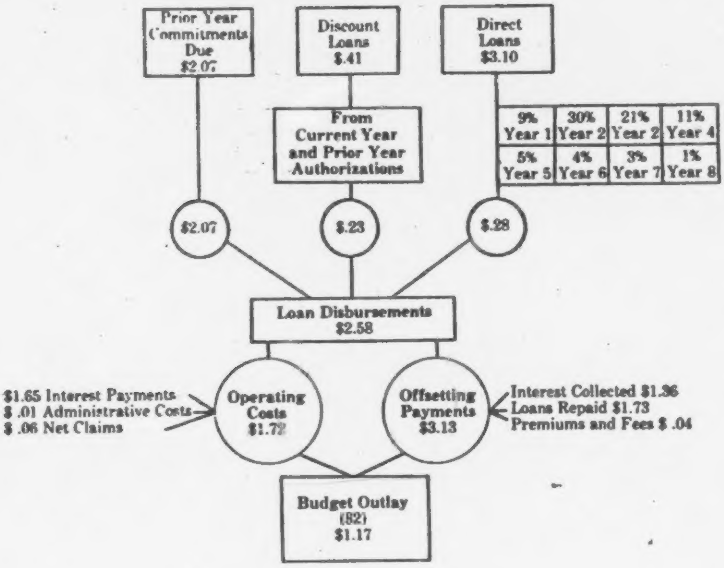
Prior Year Commitments Due $2.07
Discount Loans $.41
Direct Loans $3.10
From Current Year and Prior Year Authorizations
9% Year 1
30% Year 2
21% Year 2
11% Year 4
5% Year 5
4% Year 6
3% Year 7
1% Year 8
$2.07
$.23
$.28
Loan Disbursements $2.58
$1.65 Interest Payments
$ .01 Administrative Costs
$ .06 Net Claims
Operating Costs $1.72
Offsetting Payments $3.13
Interest Collected $1.36
Loans Repaid $1.73
Premiums and Fees $ .04
Budget Outlay (82) $1.17

Chart 2

Eximbank Export Support and Its Impact on the Federal Budget (in $ billion)

	1977	1978	1979	1980	1981	1982	Total
Total Program Authorization (includes all loans guarantees and insurance)	5.6	7.4	9.6	12.5	12.8	9.4	57.2
Net Outlays	.3	-(.1)	.2	1.8	2.07	1.17	5.44

disbursements and costs, less offsetting payments, equaled net outlays of $1.17 billion. So in fiscal year 1981, only $1.17 billion out of authorizations of $9.4 billion was borrowed from the FFB to implement Eximbank's program for that year. Thus the Eximbank's impact on the credit markets is marginal.

A summary of Eximbank net outlays for fiscal years 1977 through 1982 is found in chart 2. As the chart indicates, from 1977 through 1982 total program authorizations of $57.2 billion required net outlays of $5.44 billion.

NAM Position

In the debate over Eximbank reauthorization in 1983, it is important to eliminate confusion over the impact the authorizations for the bank actually have on the federal budget. NAM endorses President Reagan's statement in the 1983 State of the Union Address that "we must have adequate export financing to sell American products overseas . ." The achievement of this goal could be simplified and perhaps accelerated by certain changes in the Eximbank charter to be made during the 1983 reauthorization process. These changes include those listed below.

1. Language should be adopted that ensures adequate, regular funding of the Eximbank to meet the expanded growth of U.S. based exports in an increasingly competitive world market.
2. The congressional mandate that the bank provide competitive export credit programs in both the medium- and long-term areas should be clarified.
3. A "warchest" should be established using special appropriated funds to counter "predatory financing" by foreign governments which are contrary to OECD guidelines.
4. The U.S. government should press for international agreement on cessation of subsidy credits for exports.

Information Contacts

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March 1983

FOREIGN ASSISTANCE AND RELATED PROGRAMS APPROPRIATIONS FOR FISCAL YEAR 1984

WEDNESDAY, MAY 11, 1983

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, D.C.

The subcommittee met at 2:10 p.m. in room S-126, the Capitol, Hon. Robert W. Kasten, Jr. (chairman), presiding.

Present: Senators Kasten and D'Amato.

AGENCY FOR INTERNATIONAL DEVELOPMENT

STATEMENT OF M. PETER McPHERSON, ADMINISTRATOR, U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

ACCOMPANIED BY BRAD LANGMAID, DEPUTY ASSISTANT ADMINISTRATOR, NEAR EAST BUREAU

OPENING STATEMENT OF SENATOR KASTEN

Senator **KASTEN**. The subcommittee will come to order.

This afternoon we are having a hearing on the Syrian assistance pipeline at the request of Senator D'Amato. I might point out that it is my intention to ask Senator D'Amato to chair this hearing after the initial discussions from our two witnesses today.

The Syrian pipeline question was first addressed by this subcommittee almost 2 years ago when, during consideration of the fiscal 1981 supplemental legislation, a proposal had been made to rescind some $25 million of the Syria pipeline. That proposal was made by Senator Proxmire and others.

After extensive negotiations which involved myself, Senator Percy, Senator Proxmire, Senator Byrd and others, along with State Department officials, it was agreed at that time that a portion of the pipeline would be frozen, and that a portion be allowed to be deobligated as the project time ran out.

It was also agreed at that time that the other parts of the pipeline would go forward inasmuch as they had been committed to signed contracts, and also that there was some hope at that time that this action would tend to moderate the Syrian position.

HOSTILE SYRIAN POLICY

The Senator from New York, Senator D'Amato, is quite right in pointing out that the current Syrian policy is completely hostile, and in fact the recent introduction of Soviet troops into that country has created an even more ominous situation in that part of the world.

The obvious question that must be addressed at this hearing is, why continue any of the U.S.-financed programs?

The Senator from New York may suggest the remaining funds which are in the pipeline be deobligated. Unless the administration can make an overwhelming case not to do so, I would imagine that the majority of the Congress would go along with that suggestion.

We have with us today Peter McPherson, the Administrator for the Agency for International Development, and Mr. Wat Cluverius from the State Department's Bureau for Near East and South Asian Affairs.

Peter, why not begin with your testimony. Then we will hear from Wat, and then we will go on to questions.

Let me remind you that your entire prepared statements will be inserted in the record. I do not think either of you have particularly long statements anyway, but if you would choose to summarize them, you may do so.

First, Peter McPherson.

STATUS OF ECONOMIC ASSISTANCE PROGRAM FOR SYRIA

Mr. McPHERSON. Mr. Chairman, it is good to be here again. I appreciate the historical background you have given to this situation.

In connection with the role that Syria played in the efforts to bring about a peaceful solution to the Middle East conflict, a new economic assistance program was initiated in 1975.

Senator KASTEN. I might remind you, Peter, the people in the back of the room are having trouble hearing if you do not project your voice a little bit.

Mr. McPHERSON. The program was funded initially from the Middle East Special Requirements Funds and subsequently from the Economic Support Fund. Between 1975 and 1979, AID obligated $438 million for Syria. The program was terminated in 1979, and no additional funds have been obligated since that time.

In April 1981, in accordance with congressional guidance and with the history that you presented a moment ago, Mr. Chairman, the Department of State agreed with Congress to freeze that portion of the undisbursed funds, the pipeline not "committed" as of April 9, 1981.

The "committed" funds were defined as those funds which were either subobligated or earmarked from (a) signed contracts; (b) issued invitations for bids; (c) negotiated procurement for which detailed negotations were underway; (d) projects involving the "fixed amount of reimbursement" payment procedure for which designs had been approved by AID; and (e) participant training where training plans with U.S. institutions, including AUB—American University of Beirut—had been initiated. AID has been responsible for the management of this agreement.

At the time the program was "frozen," it included 10 active loan funded projects and 9 active technical assistance grant funded projects. The projects emphasized improving the living conditions of the Syrian people.

LOAN PROJECTS

The loan projects provided funds for (1) rural electrification of 1,200 Syrian villages; (2) construction of 94 rural schools; (3) construction of 376 kilometers of rural roads; (4) construction of four provincial water supply systems; and (5) improvement and rehabilitation of the Damascus water distribution system.

The technical assistance grant projects include efforts in the health sciences; animal science education; livestock production techniques; long-term advanced degree training; English language training; soil classification and mapping; and natural resources inventory management.

The funds in these development projects finance the export of U.S. goods and services and the training of Syrians in U.S. educational institutions.

As of April 1981, the pipeline amounted to $308,400,000. Since then we have disbursed $68,300,000 and deobligated $11,600,000. The current pipeline is $228,500,000 in 19 projects. Of this amount, $96,100,000 is in the frozen category which we would expect to deobligate as the appropriate termination dates for disbursement fall due.

The balance, $132 million, is in active commitments which are being disbursed. We expect the pipeline to be expended rapidly in 1984 and 1985. It should be liquidated by fiscal year 1987.

Mr. Chairman, I will be pleased to answer any questions you or Senator D'Amato may have in connection with the management of this program.

With me is Mr. Brad Langmaid, who is the Deputy Assistant Administrator, the senior career person in the Near East Bureau, who is intimately familiar with the details of the management of this particular pipeline.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Peter McPherson follows:]

STATEMENT OF M. PETER MCPHERSON, ADMINISTRATOR, U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

Thank you, Mr. Charman, for this opportunity to appear before this subcommittee to provide additional information related to our AID program in Syria.

In view of the critical role Syria played in our efforts to bring about a peaceful solution to the Middle East conflict, a new economic assistance program was initiated in fiscal year 1975. The program was funded initially from the Middle East Special Requirements Fund and subsequently from the Economic Support Fund. Between fiscal year 1975 and fiscal year 1979 AID obligated $438 million for Syria. The program was terminated in 1979 and no additional funds have been obligated since then.

In April 1981, in accordance with congressional guidance, the Department of State agreed with Congress to freeze that portion of the undisbursed funds, the pipeline, not "committed" as of April 9, 1981. "Committed" funds were defined as those funds that were either subobligated or earmarked for (a) signed contracts; (b) issued invitations for bids; (c) negotiated procurement for which detailed negotiations were underway; (d) projects involving the "fixed amount reimbursement" payment procedure for which designs had been approved by AID; and (e) participant training, where training plans with U.S. institutions (including AUB) had been initiated. AID has been responsible for the management of this agreement.

At the time the program was "frozen" it included ten active loan funded projects and nine active technical assistance grant funded projects. The projects emphasized improving the living conditions of the Syrian people. The loan projects provided funds for: (1) the rural electrification of 1,200 Syrian villages; (2) the construction of 94 rural schools; (3) construction of 376 kilometers of rural roads; (4) construction of four provincial water supply systems; and (5) the improvement and rehabilitation of the Damascus water distribution system. The technical assistance grant projects include efforts in the health sciences, animal science education, livestock production techniques; long term advanced degree training; English language training; soils classification and mapping; and natural resources inventory and management. The funds in these development projects finance the export of U.S. goods and services and the training of Syrians in U.S. educational institutions.

As of April 1981 the AID pipeline amounted to $308.4 million (129.6 million of the total obligation of $438 million had been disbursed).

Since then we have disbursed $68.3 million and deobligated $11.6 million. The current pipeline is $228.5 million in 19 projects. Of this amount, $96.1 million is in the frozen category which we would expect to deobligate as the appropriate terminal dates for disbursement (TDDs) fall due. The balance, $132.3 million, is in active commitments which are being disbursed. During fiscal years 1983, disbursements are expected to be $85.9 million. We expect the pipeline to expend rapidly in fiscal years 1984 and 1985. It should be fully liquidated by fiscal year 1987.

Mr. Chairman, I would be pleased to answer any questions you or members of the subcommittee may have on AID's management of this program.

DEPARTMENT OF STATE

Bureau for Near East and South Asian Affairs

STATEMENT OF WAT T. CLUVERIUS, DEPUTY ASSISTANT SECRETARY FOR NEAR EAST, DEPARTMENT OF STATE

PERSPECTIVE ON MIDDLE EAST PROBLEMS

Senator Kasten. I think it would be more efficient if we asked Mr. Cluverius to give his statement, and then we will ask questions to either or both of you, then either or both of you could respond, along with help from Brad.

Mr. Cluverius. Thank you, Mr. Chairman.

The administration understands that the Syrian-Soviet relationship, Syria's reaction both to the President's September Middle East initiative and, thus far, the Lebanon-Israeli agreement, all combine to raise questions about our relationship with Syria. These are legitimate questions, and I want to give you briefly our perspective on them.

Our immediate goals in the Middle East are, first, to assure the withdrawal of all foreign forces from Lebanon in order to permit that country fully to reestablish its sovereignty and independence.

Second, the President remains determined to pursue a comprehensive peace between Israel and the Arab States based on his September initiative. We believe that when we have further progress toward a Lebanon solution, we will be better able to broaden the Arab-Israeli negotiations to include Jordan and representative Palestinians.

Immediately ahead, however, is the need to give our full support to President Gemayel of Lebanon in his efforts, having completed an agreement with Israel, to secure Syrian and PLO agreement to withdraw from Lebanon; otherwise the Lebanon-Israel agreement itself will not be implemented.

Syria continues to have more than 30,000 troops in Lebanon, and therefore, must be reckoned with if we are to achieve our central objective of reestablishing the Government of Lebanon's authority throughout that country.

While Syria has reacted thus far negatively to the Lebanon-Israeli agreement, it has not ruled out Syrian withdrawal from Lebanon absolutely. As Secretary Shultz has said in the last day or so, "The door is not fully closed."

The Lebanese must soon engage in difficult withdrawal negotiations with the Syrians. It is essential that nothing be done that could jeopardize these negotiations. A move at this time to terminate U.S. economic aid projects still continuing in Syria might further complicate these negotiations for President Gemayel and could possibly undo the progress which has been made toward resolving the very tragic Lebanon crisis.

The administration, therefore, strongly urges that no steps be taken to deobligate funds for AID projects in Syria at this time. At a later date we would be prepared to readdress with the subcommittee the question of deobligation.

Thank you.

[The prepared statement of Wat T. Cluverius follows:]

PREPARED STATEMENT OF WAT T. CLUVERIUS, DEPUTY ASSISTANT SECRETARY FOR NEAR EAST AND SOUTH ASIAN AFFAIRS

Mr. Chairman, Members of the Subcommittee; I welcome the opportunity to appear before the subcommittee to discuss the policy implications of our aid program in Syria.

The administration understands that the Syrian-Soviet relationship, Syria's reaction both to the President's September Middle East initiative and, thus far, to the Lebanon-Israel agreement all combine to raise questions of our relations with Syria. These are legitimate questions and I want to give the members our perspective on them.

Our immediate goals in the Middle East are, first, to assure the withdrawal of all foreign forces from Lebanon in order to permit that country to reestablish itself as a fully sovereign and independent nation. Second, the President remains determined to pursue a comprehensive peace between Israel and the Arabs based on his September initiative. We believe that when we have further progress toward a Lebanon solution, we will be better able to broaden Arab-Israel negotiations to include Jordan and representative Palestinians.

Immediately ahead, however, is the need to give our full support to President Gemayel in his efforts to secure Syrian and PLO agreement to withdraw from Lebanon so that the Lebanon-Israel agreement to the same end can be implemented.

Syria continues to have more than 30,000 troops in Lebanon and, therefore, their withdrawal is essential to the objective of reestablishing the Government of Lebanon's authority throughout that country. While Syria has reacted negatively to the Lebanon-Israel agreement, it has not ruled out Syrian withdrawal from Lebanon.

The Lebanese will soon be involved in difficult withdrawal negotiations with the Syrians. It is essential that nothing be done that could jeopardize these negotiations. A move at this time to terminate U.S. economic aid projects still continuing in Syria might further complicate these negotiations and could possibly undo the progress which has been made toward resolving the Lebanon crisis.

The administration, therefore, strongly urges that no steps be taken to deobligate funds for AID projects in Syria, at this time. At a later date, we would be prepared to readdress with the subcommittee the question of deobligation. As the subcommittee is aware, $99.4 million in AID funding for Syria has been frozen since 1981. Deobligation of these frozen funds will begin to occur in the fiscal year as terminal dates established in the bilateral project agreements occur. This process of deobligation would continue over several more years if no other action were taken.

AID PERSONNEL COSTS IN SYRIA

Senator **KASTEN**. Mr. McPherson, what is the cost of the AID personnel in Syria who are overseeing these projects? If I remember right, we asked this question 6 months ago, and it was something in the neighborhood of $1.9 million a year.

What is the cost, your overhead?

Mr. **LANGMAID**. The operating expenses item in the budget which includes both the salaries and support costs of the people in Syria is still about $1.9 million.

Senator **KASTEN**. That is $1.9 million per year?

Mr. **Langmaid**. Per year. It is for 8 U.S. employees and 16 Syrian foreign national employees.

Senator **Kasten**. They must be paid pretty well.

Mr. **McPherson**. That, of course, includes support costs.

Mr. **Langmaid**. Housing, rental, transportation, schooling, communications, and security—the whole range of costs for an overseas mission.

Senator **Kasten**. So, $1.9 million a year. Has that been going down over the last couple of years or has it been staying the same?

Mr. **Langmaid**. The costs per man have been going up because of inflation. But the total cost is expected to go down as we gradually reduce the staff.

RETENTION OF SYRIAN PROJECTS

Senator **Kasten**. In your statement are you suggesting that what we want to do is to somehow keep a foot in the door by keeping these projects open, and that somehow Syria is likely to turn away from the path that it has been on now for the last couple of years and has accelerated in the last couple of months?

I do not understand the reasoning. We went through essentially the same argument you just gave us 2 years ago. At that time we reluctantly agreed.

It seems to me that the direction since then has been all to the negative. I do not understand the idea that you do not want to rock the boat. There does not seem to be much of a boat to rock right now.

Mr. **Cluverius**. Conceding that the graph has been down, as I will certainly concede—I used to be Director of that office—right now there is a very delicate boat which we would not like to see be rocked, which is President Gemayel's efforts to engage the Syrians effectively.

Now, their initial reaction clearly, to the Israeli-Lebanon agreement, has been negative. But in private conversations and publicly they have not ruled out their own withdrawal. They have opposed the Israel-Lebanon agreement, but in a sense no one asked them to sign that one.

What we have asked them to do and what President Gemayel will ask them to do is to make their own agreement with the Lebanese on their own withdrawal.

This is a difficult and delicate enough situation right now, so that we would rather not see actions taken that signal things too much one way or the other while Gemayel engages them.

Senator **Kasten**. Well, as some of the people in this room know, in past hearings the qustion has been—from at least one of us on this side of the table—that everyone is taking for granted that if we can just get an Israeli withdrawal we are going to have an automatic Syrian and PLO withdrawal.

Everybody says, "Yes, we are taking advantage of that. We believe that is what is going to happen." Of course, that is not what is happening now. But all of us hope that we will get all foreign troops out of Lebanon.

Before I ask Senator D'Amato to proceed with his questions, I just want to say for the record that Senator D'Amato identified this problem. I agreed with him that we needed to have a hearing, and I agree with him that we need to at least consider dealing with this pipeline problem in one way or the other.

I want to congratulate him for his work on this subcommittee and particularly on this particular problem which is, I think, of great concern and will be of great concern to both the Senate and the House of Representatives as the issue becomes more and more known.

I think that an awful lot of people are simply not aware of the fact that we have these dollars that continue to be obligated.

So, I would like to congratulate the Senator from New York on his work. At this point, Senator, I would like to yield to you for questions.

Senator D'AMATO. Thank you very much, Mr. Chairman.

Let me thank you and your staff for bringing these matters to the attention of our colleagues in Congress by making available not only this meeting but other subcommittee meetings to investigate this important area.

PREPARED STATEMENT OF SENATOR D'AMATO

I have a prepared statement that I would like to submit for the record in order to expedite this hearing and get down to some of the questions.

[The prepared statement of Hon. Alfonse D'Amato follows:]

PREPARED STATEMENT OF HON. ALFONSE D'AMATO, U.S. SENATOR FROM NEW YORK

Mr. Chairman, I wish to express my appreciation for your convening this meeting of the Foreign Operations Subcommittee in order to obtain additional information with regard to U.S. assistance to Syria.

Recent events in the Middle East have raised serious questions with respect to U.S.-Syrian relations. Today, the Soviets are engaged in an unprecedented arms buildup in that region. A region of vital security interest to the United States, Syria has virtually become an outpost of the Soviet Union.

Moscow has equipped Syria with long-range SAM-5 anti-aircraft missiles, a significant action not only because of the destructive capacity of these weapons but also because of the fact that this is the first such deployment outside of the Soviet Union itself. As Secretary of State Shultz recently commented, the deployment of advanced Soviet weapons by the Syrians is both "sobering and destabilizing." The two SAM-5 facilities located in Syria, at Dumeir and Homs, are each manned by between 50 and 600 Soviet technicians. Despite recent pronouncements in the Syrian press to the contrary, it is apparent that these missiles are positioned for offensive purposes.

The Soviets have literally armed the Syrians to the teeth with their most advanced weapons including T-72 tanks, self-propelled 122-millimeter and 155-millimeter howitzers, BM-21 Katyusha rockets and SAM-6 and SAM-9 anti-aircraft missiles. In addition, the Syrians have also obtained Mig-23 aircraft capable of carrying nuclear weapons. During recent months, there has been a constant stream of high-level Soviet officials into Damascus, including important military leaders.

Meanwhile, the Syrians have hindered and continue to hinder efforts by the United States to reach a just and lasting peace in the Middle East. As a recent broadcast from Damascus declared:

"The United States, which is the champion of the Zionist aggressors and their partner, must not remain beyond the reach of our people and their strugglers. Washington must realize that its crimes and the crimes of its Zionist agents cannot go unpunished . . ."

It has become increasingly clear that Syrian actions have only served to frustrate U.S. efforts to secure the withdrawal of all foreign forces from Lebanon. Reports in this mornings newspaper, for example, indicate that thousands of Syrian troops are flowing into Lebanon to join the more than 50,000 Syrians already in that nation. This action only exacerbates the already tenuous situation in that war-torn country.

Meanwhile, the Syrians are assisting hundreds of PLO guerrillas who are crossing into Lebanon from Syria swelling their numbers to more than 15,000 less than a year after all PLO forces were to have been withdrawn.

It is unconscionable that we continue to provide millions of dollars of assistance to Syria at a time when her leaders seems determined to frustrate U.S. policy aimed at achieving peace in the Middle East.

As Assistant Secretary of State Eagleburger concluded recently, ". . . the fact of the matter is, that with the Soviets putting all of these men and equipment into the Middle East, and particularly into Syria, they create the real dangers of an escalation which could become a serious confrontation between East and West."

The Syrians have played a significant role in this escalation which violates the spirit of U.S. negotiations aimed at achieving a settlement of hostilities in this region. It is time that we reevaluate our relationship with Syria in light of her continued intransigence.

SOVIET BUILDUP OF SYRIAN MILITARY STRENGTH

Senator D'AMATO. I think it is appropriate and necessary to say that we have never seen such an unprecedented military buildup in Syria by Moscow with the tons of sophisticated weapon systems, including SAM-5's. This is the first time that SAM-5's have been deployed outside of the Soviet Union. As a matter of fact, these advanced weapons are being operated, maintained, and manned by the Russian troops. Not even the Syrians are permitted to get near them.

I think that certainly is a relevant factor. I might quote the statement made by Assistant Secretary of State Eagleburger when he concluded, "The fact of the matter is that when Soviets are putting more men and equipment into the Middle East and particularly into Syria, it creates a real danger of an escalation that could become a serious confrontation between East and West."

It is important that we in public office clearly demonstrate that we are not going to just sit by, so to speak, and just allow these matters to go on unaddressed. The Congress of the United States in general, and this committee in particular, must seriously reevaluate our relationship with Syria.

If we do not see a pronounced change in Syrian attitude rather quickly, the Congress should move to deobligate all U.S. assistance to that nation including those funds contained in the so-called active pipeline.

The deteriorating situation in the Middle East necessitates positive action by the United States. Syria has clearly contributed to the destabilization of the region. The time for niceties has come and gone. More than 2 years ago as the chairman very well put it, this committee and the Congress were implored—implored, "Please, do not deobligate these funds. Please, do not freeze the funds any further."

We were as a matter of fact told—if memory serves me right, Mr. Chairman—that indeed we might violate some legality if we terminated U.S. AID-funded projects in Syria.

So, I think we have been led—whether deliberately or not—astray. I want to tell you that. It took us too many months to get these figures concerning the level of U.S. development activities in Syria. This subcommittee has been sending questions to the Agency for months.

But I have to, for the record, express my displeasure at the lack of cooperation that we have received, whether deliberately or otherwise, in terms of bringing forth the relevant factors.

Had I been able to secure the necessary information earlier I would have moved on the Senate floor to deobligate these funds, and I think we could have gotten colleagues in the House to do that.

I understand the State Department's position, and I must say I concur, prudence would dictate that, at this point in time, we not rush in either body to begin to move to deobligate these funds. But I do think that certainly within the next 48 hours, or 72 hours, or within a reasonable time constraint, we had better begin to see some action.

I am tired of seeing all the guns trained on one side and claims held up on one side, and threats made on one side where we see a rather hostile kind of confrontational situation. Syria must realize that we are not going to just sit back and allow these funds to continue to be expended.

I thank the chairman.

Let me ask you, you indicated 19 kinds of projects, water projects, rural road projects. Is there any major highway construction included in this package?

HIGHWAY PROJECTS

Mr. LANGMAID. There are two highway projects, Senator, one is the Lattakia-Tartous Highway.

Senator D'AMATO. Where does that highway go?

Mr. LANGMAID. It connects two ports in the northwestern section of Syria. The only funds that have been expended for that project are the original design engineering costs. All other items in that project are frozen. It is a $60 million project and all except $2 or $3 million is frozen.

The other highway project is the Damascus-Dera'a Road.

Senator D'AMATO. That is not a rural highway, is it?

Mr. LANGMAID. No, it is not.

Senator D'AMATO. What about the Damascus highway?

Mr. LANGMAID. It also has only engineering costs expended. The rest of the project is in limbo; the funds are in limbo at this stage.

They are in the unfrozen amount but at this moment there is no expectation that contracts to utilize them will go ahead.

Senator D'AMATO. No contracts have been let on that?

Mr. LANGMAID. The contracts have been signed but not yet accepted by the Syrian Government.

DELAYING IMPLEMENTATION OF CONTRACTS

Senator D'AMATO. What have we done, or what can we do to prevent those contracts from being implemented?

You know, the next question—I am not saying that we do it today, in 24 hours or 48 hours, maybe 72 hours—but the next problem is that if those contracts get let, are we going to then have a situation where we say, "Oh, Senator, we cannot because there is a legal obligation."

Is there any way we could put them on hold?

Mr. McPHERSON. Senator, we do not expect the Syrians to respond. We think that those moneys for that highway will be deobligated, as the termination dates pass. That has been our thought for months now, as a matter of fact.

Senator D'AMATO. That is the highway to Damascus?

Mr. LANGMAID. That is the Damascus-Dera'a Highway, yes.

Senator D'AMATO. Where does that go?

Mr. LANGMAID. To Dera'a near the Jordan border.

Senator D'AMATO. To Jordan? Is Jordan happy with that highway?

Mr. LANGMAID. As far as I know, yes. This is a major communication and commercial route to the Saudi Arabian Peninsula. There is now a highway which carries most of the truck transport. The new highway involves an upgraded parallel route. It is a congested highway being replaced by a more modern highway.

Senator, I might add that those two highway projects involve approximately $100 million of the combined frozen and active portfolio.

Senator D'AMATO. The highway project.

Mr. LANGMAID. The two highway projects are the largest ones in the portfolio.

Mr. McPHERSON. Both of which are expected to be deobligated.

USE OF HIGHWAY FOR MILITARY PURPOSES

Senator D'AMATO. I refer to those as the highways that are going to carry the Russian tanks that are in there now.

I hope that we get out the message here that they have a Congress that is not going to shirk its responsibility that the American public and the utilization of American dollars, this kind of action that I see taking place—very disturbing—continues.

This is a major highway, it is not rural electrification. It can be and will be used undoubtedly for military purposes.

Mr. McPHERSON. As you have noted, Senator, these moneys are now frozen.

Senator D'AMATO. Well, they are not frozen.

Mr. McPHERSON. Well——

Senator D'AMATO. Now, wait a minute, they are not frozen.

Mr. McPHERSON. They are expected to be deobligated.

Senator D'AMATO. They are expected to be deobligated.

Mr. McPHERSON. They have had that status for months and every expectation is that deobligation will occur.

Senator D'AMATO. Could you expand upon some of the other kinds of activities where contracts are presently on course?

Mr. LANGMAID. Would you like me to summarize the projects in the portfolio, Senator?

Senator D'AMATO. Yes.

TECHNICAL ASSISTANCE GRANT PROJECT

Mr. LANGMAID. In the technical assistance grant area—and I am talking here mainly about small amounts of money, relatively speaking—there are the following projects:

An English language training center which involves Georgetown University in providing teachers of the English language.

Senator D'AMATO. That is taking place now?

Mr. LANGMAID. It is taking place now. There is a member of the Georgetown faculty in Damascus, and there are a number of Syrians studying in the United States.

Senator D'AMATO. How much money is involved in that project?

Mr. LANGMAID. The active pipeline is $213,000.

An agricultural educational livestock project which involves the University of Minnesota. The active portfolio on it is $4,400,000. It finances several technicians and training of Syrians in the United States.

A general participant training project which has an active portfolio of $1,300,000.

A technical services and feasibility studies project—in fact there are two of those. There are only residual balances of funds owed to U.S. contractors. The total of the two is $620,000.

A soil survey and land classification project which is essentially fully disbursed. Originally it was in the active category, but the full amount of that project has now been disbursed.

The last project in the technical assistance area is a national remote sensing center. That has an active portfolio of $2,700,000.

The total of the active portfolio in the grants area is $11,100,000.

WATER PROJECTS

In the loan area there are two water projects for Damascus. Damascus Water Supply I involves traditional building and repair of water systems in the city of Damascus. It has an active portfolio of $29,500,000 and involves a large number of U.S. suppliers of pipes, fittings, and related equipment.

The other Damascus water supply project, Damascus Water Supply II, is a different kind of project. There is a spring which has been feeding the city of Damascus municipal water system for something over 2,000 years.

We are assisting the Syrians in managing the flow from that spring. I am told by the experts in that area that the technology of working with springs is something the United States has and is very complex. The project involves the management of that water system. It has an active portfolio of $12,700,000.

The Euphrates Basin irrigation maintenance project assists the Syrian Ministry with the maintenance of the irrigation canal system. It is largely disbursed and has an active portfolio of $1,200,000.

The Damascus-Dera'a Highway we have already mentioned. The active portfolio of that project is $42,700,000. That is entirely in contracts which have been approved but not yet ratified by the Syrian Government.

SYRIAN REFUSAL TO RATIFY CONTRACTS

Senator D'AMATO. Stop at that point. Why has Syria refused to ratify those contracts?

And now we are going to get ourselves into a situation that if she does ratify the contracts, that we then have a situation where you tell this committee, "I am sorry, we have a contractual obligation and we cannot break it."

Is that not the point that we are jeopardizing ourselves at?

Mr. McPherson. The overwhelming concern here, Senator, has always been—at least as I reviewed this portfolio—in the context of international diplomatic and political concerns.

I cannot say that I as a lawyer—and of course you practiced law a number of years yourself—I cannot say I dismiss those. Indeed, I reviewed those as recently as this morning with my legal counsel.

But I think the overwhelming concern is political. To get into legal niceties with you would just take your time and not be productive. I will be happy to do that, I am not trying to dismiss that. But the concern is political.

Senator D'Amato. I understand the political concern, and I think it would be wise—as we have been more than restrainful for a period of time, more than 2 years—we are here in a crisis atmosphere, and I do not believe that it would be appropriate to move to deobligate on the Senate floor or any other place at this time.

But I think we have to serve notice that we are not happy with this situation. That we will move forward if this situation continues. It might be appropriate for you to consider sending the kind of notice that would prevent us from having a situation where 30 days from now we hear the situation, "Well, Senator, you know they have approved, and we are now contractually obligated" because that is the kind of thing we have heard at previous meetings. On many of those contracts, although we might wish to, that there are legal ramifications that involved U.S. suppliers, et cetera, contractors, and therefore we were bound.

Mr. McPherson. I understand that, Senator, and I think this is a problem which we do not need to face because it really is not one right now.

I would point out that in the correspondence to you that we have written with some care after the last hearing here I personally struck out an extensive discussion about the legalities of this matter because I thought that while they might be of interest to you in your old hat as a counselor-at-law, in fact the issue is dominantly otherwise.

SYRIAN FUNDING TOWARD CONTRACTS

Senator D'Amato. Let me ask with respect to these contracts and the Syrians having not gone forth to sign them. Could that be because they have not put up their share of money?

Mr. Langmaid. No, Senator. They have not put up their foreign exchange to finance the contracts. My understanding is they are in fact going ahead with their domestic currency on the project.

Senator D'Amato. You mean they are moving ahead on the project?

Mr. Langmaid. They are moving ahead with the project.

Senator D'Amato. Without our aid?

Mr. Langmaid. Without our money.

Senator D'Amato. Wonderful. If they want to build their roads, I think they should build them with their money. I am glad I did not give you a commitment that I was not going to try to move to deobligate now.

Mr. LANGMAID. The issue they have raised with us is that they found the costs of the equipment too high compared to what they know of alternative supplies of that kind of equipment.

Mr. MCPHERSON. That has been a dispute of long duration, 6 months.

Mr. LANGMAID. Six to eight months, yes.

Senator D'AMATO. Well, we hear a lot in Congress about being the "arms merchants" and the money is fungible, and we are in essence really freeing up money to be spent on other things.

So, when we hear about these wonderful projects, these water projects which are in absolute necessity in that area of the world, is it not true that we certainly make it possible then for Syria to devote a portion of their gross national product and money which otherwise would go to these absolutely essential projects, they can then be diverted to armaments, et cetera. Is that not true?

You know, it is a very easy thing to say that these are humane projects. But when you have a country that is involved in this kind of military buildup and devoting so many of its resources—just about all of its resources——

Mr. MCPHERSON. I think what we need to do, Senator——

Senator D'AMATO. Well, some of these water projects are an absolute necessity.

Mr. MCPHERSON. We need to follow the international situation very closely and consult with you carefully as this situation evolves because we obviously have great concerns about the stability of the area and the military buildup, and the various comments that you made in this regard.

U.S. ROLES AS SUPPLICANTS

Senator D'AMATO. Well, let me ask, Mr. Cluverius, how would you assess the situation with respect to Syria at the present time? It seems to me we are almost supplicants there.

Here we are with the Saudis, asking the Saudis to use their prestige—which is nothing more than dollars—to influence the situation. But here we are, asking them to use their influence with the Syrians to get them to take a position that would possibly bring about disengagement and finally withdrawal.

Mr. CLUVERIUS. I do not think we are supplicants at all. I believe we have a situation in which we are trying to support a particular policy which is also the policy of the Government of Lebanon and our own policy. We want to do what we can to help and make this Israel-Lebanon agreement be followed by other agreements. I think they will come.

We are in the early days, it is only less than a week since the agreement was reached. It took many months to reach it. It will take some time to bring the Syrians around as well.

Senator D'AMATO. Well, let me ask you something. With the Soviet presence in Syria and the incredible economic resources that they have been pouring into that nation in terms of military supplies, and resuppling equipment, et cetera, is it not somewhat naive to think that the $240-some million, most of which is frozen and some that is in various stages—they happen to be saying almost, "You know, you keep it because it is costing us too much," et cetera, to think that that is really going to have a beneficial impact or that is going to determine to any degree the kind of reaction that they are going to make to our peace initiatives?

Mr. CLUVERIUS. I think first off, some of those projects, of course, meet some basic human needs which we have supported for a long time.

Beyond that, I think right at this time I do not think we need, as I have said in my statement, at this time—as you agree—that this is the time to send that particular negative signal.

I think in terms of the overall GNP and budget of Syria it is probably not that great. But at a time when we have a certain kind of relationship with Syria right now it is better to leave it be for the moment.

Mr. MCPHERSON. I would phrase it another way, an additional way. I do not think it is the time to make the pipeline—and I think you have agreed with this a couple of times today—an issue that gets injected in the other political concerns. It is not only a matter of our relationship but we want to keep the whole pipeline question outside of any other discussions that might be occurring over there.

There are all kinds of implications that can come out of that if all of a sudden the pipeline begins to be talked about as one of the items of discussion.

CONTRACTUAL OBLIGATIONS

Senator D'AMATO. Understand, one of the problems that I have is with regard to the legality of terminating these contracts as you quote, "contractual obligations."

I do not want to have a situation 3 weeks from now or 4 weeks from now—although that might be low down on the priority list, and we are talking about confrontation in the Middle East, and I hope that does not take place. But I do not want to have a situation in which you will say, "Well, Senator, we still have these contracts in effect and we have to go through with them," et cetera because we talked about this 2 years ago and there was precious little done.

I would have to say to you, if you had to characterize the state of relationship to the United States, have they improved in that 2-year period of time?

Mr. MCPHERSON. Let me just say, Senator, that if a decision were made that there was going to be a deobligation, a termination of all activity, no doubt there would be some costs incurred by the U.S. Government to various U.S. contractors because a good share of this money, is directly or indirectly contractual obligations to U.S. entities.

Just how much I do not know, but that would be something that we could measure and of course contractual penalties would be paid.

Concerns about international law, obligations between two countries also are involved. But there are no easy forums to which to bring such issues, as you know. I would say the law here is somewhat murky.

But I would say again that our discussions with you in the future and my discussions with you in the past have not been focused on these critical considerations, and we are not going to try to tie you up in niceties and bureaucratic concerns as we get at what we view and what you obviously view as a very important political matter.

LAW GOVERNING FOREIGN ASSISTANCE

Senator D'AMATO. Of course we have discussed the law governing foreign assistance. I think there is a contention that this committee has had that indeed all of the contracts in which the United States is involved with Syria are subject to a clause which is required by law allowing the United States to cancel such contracts with Syria.

Mr. MCPHERSON. That is absolutely correct, Senator, there is such a clause in there. But that clause does not waive all penalties. I do not want to try to give you a kind of lawyer's answer because that is not what you are after.

Senator D'AMATO. All right.

Mr. MCPHERSON. But that clause is present in those contracts. It does not cure all penalties that might be imposed upon us.

Senator D'AMATO. I think it is important for us to understand, though, that those projects in terms of irrigation, water supply, roads, et cetera, particularly the ones in water supply, electrification, all those projects serve a very vital, important need of Syria.

That, consequently, is making it possible for them to divert funds that otherwise they would have to utilize in that area, in those areas, delivering those services that are necessities to running their army; to helping their war effort.

I would have to suggest to you that that is an effort that is not in the best interest of this Nation or the whole Middle East. There could be no other interpretation.

So, consequently I think the urgency of saying, the question is, Where are we going? You might say, you know, people understand these things behind the scenes. I am not so sure.

You know, just like the mouse that roared. The country that goes to war declares war and loses. This country seems to be rushing to pacify them.

I see a program over the years whereby we have sent military aid and economic aid to countries in the hope that they are going to be of some assistance to us; on the hope they will not kick us around too much—whether it be at the U.N. or whether it be at the conference tables, or whether it be in the battlefield.

I think we had better begin to send different kinds of messages. I do not think the messages of sitting back—I think for example the Nicaragua situation is a disgrace. We should have pulled that sugar out of there a long time ago. The fact is that we continued it for the past year or 2 years and yet penalized some nations, giving them a low quota. Better late than never—better late than never.

But I certainly could not understand that policy. It did not beget us anything. I think this is the same kind of situation. Here we see a very real commitment of dollars flowing in there from the Russians, and we see 5,000 Russians there.

Let me ask you, are the Syrians putting troops into the Lebanon area right now or are they pulling out? We get reports that they are.

SYRIAN TROOPS IN LEBANON

Mr. CLUVERIUS. There has been some reinforcement of their troops in Lebanon, that is true.

Senator D'AMATO. That is within the past 24 hours?

Mr. CLUVERIUS. It is over the past number of weeks.

Senator D'AMATO. The past number of weeks. So, far from positioning itself to attempt to move out, it would appear that they are going in the opposite direction.

Mr. CLUVERIUS. There have been a number of moves in that region. I mean, there has been some reinforcement by the Syrians. There has been some, much less reinforcement by the Israelis of their positions in reaction.

PLO

Senator D'AMATO. I understand the PLO is now up to about 15,000. That substantial numbers have been flowing back into Lebanon as well.

Mr. CLUVERIUS. Since September probably a few thousand.

Senator D'AMATO. A few thousand since September. Has that flow increased perceptively?

Mr. CLUVERIUS. There were probably 10,000 left there when the agreement was completed in September.

Senator D'AMATO. Has that flow increased, do you know, perceptively within the past several weeks, infiltration of the PLO?

Mr. CLUVERIUS. Yes, and they have also publicized it rather loudly as well. I think they are making a political as well as a military statement.

Senator D'AMATO. Obviously, the PLO are coming in from Syria. So, they are coming in with the aid of Syria.

I think this is rather ironic. I would like to quote to you something before this committee in 1977, fiscal year 1977, testimony right here before this subcommittee from former Secretary of State Henry Kissinger.

Syria will play an integral part in any peaceful settlement in the Arab-Israeli dispute and has "generally followed a moderate and helpful course in political efforts to contain the conflict in Lebanon. Our nonmilitary support systems program with Syria is essential to maintaining the close working relationship we need as we continue our peace efforts."

Everyone can say, you know, hindsight is better than 20-20 vision foresight. But I am going to tell you, I just cannot help but think that we had better begin to send some different notices out so people will recognize the realities of the situation, and stop getting ourselves involved and saying, "If we just promise people aid," and wishful thinking.

You know, if you want to bring about peace you have to have an agreement, you have an understanding. People had better understand what we expect. If we are going to deal with petty tyrants and dictators throughout the world and think that as the result of some aid program or project that may be humane and maybe purposeful, that may be noble in and of itself, that that is going to deter him from the course of conduct that we have seen taking place, that is just not going to work.

It has not worked before, and it is not going to work, I would submit to you, by giving aid to the despot Idi Amin. We thought that by giving him any kind of aid that was going to change him and make him more humane and compassionate, and a friend to the United States.

Maybe the horse is out of the barn and is racing down the track, and we can only salvage something. But maybe this would give us a lesson on dealings in the future in terms of distributing our foreign aid.

I want to tell you something. As I sit on this committee, I am going to look very, very closely in terms of the aid programs that we have ongoing. I am going to ask my staff to take an absolute close look.

If we have these situations where we have these kinds of people who have no respect for human rights, who have no respect whatsoever for the United States and demonstrate that repeatedly, well, then I think we have to have a reappraisal.

We just simply cannot say, "Well, these projects are peaceful projects" when they allow these dictators and tyrants then to divert their resources to the purposes of arms, et cetera, and making war, and becoming hostile in those regions, and in many cases creating very dangerous situations with our allies.

Mr. McPHERSON. We certainly agree with the thrust of that. I would like to think that in our allocations of aid in the last couple of years, those principles have been carefully reviewed and applied. Certainly this is a hard world and one cannot approach it naively.

Senator D'AMATO. This concludes today's hearings. The record will remain open for 2 weeks so that members of the subcommittee may submit questions for the record.

I would like to thank staff and our subcommittee chairman. I hope that the questions that we put to you, you understand, were of the kind of nature and necessity definitely calls for us coming forward.

I want to thank you for your testimony, and thank you for your candor as well.

I will be mindful of the obligations that this committee has and that this Senator has. I will not move at this time in any manner that would in a very dangerous period of time create further complications, or could be pointed to as an excuse or reason that would possibly keep some accord from taking place in this very sensitive area of the world.

SUBCOMMITTEE RECESS

The subcommittee stands in recess subject to the call of the chair.

[Whereupon, at 2:55 p.m., Wednesday, May 11, the subcommittee was recessed to reconvene at the call of the Chair.]

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